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ASIA NEWSFLASH

June 2017

COUNTRY SPOTLIGHT INDONESIA

The Republic Rises with Potential Division

As anticipated by Dun and Bradstreet for some time, on 19 May, international credit ratings agency S&P upgraded Indonesia's sovereign rating to BBB- from BB+. According to S&P, its rating upgrade was attributable to 'reduced fiscal risks' thanks to 'realistic budgeting', significant subsidy reductions and the success of the just-concluded tax amnesty programme.

According to official data, Indonesia's Q1 real GDP growth improved slightly to 5.0% y/y from 4.9% in Q4 of 2016. In particular, while private consumption and fixed investment contributed the most to economic growth as usual (2.7 and 1.5 percentage points respectively), Q1 also saw a marked improvement in export performance, with goods exports growing by 8.2% in real terms, more than double the 3.7% growth rate in Q4. For 2017, we maintain our forecast of a pick-up in Indonesian full-year real GDP growth to 5.5% from 5.0%. While this is already predicated partly on improving external performance, a faster-than-expected export recovery is among the most plausible upside risks to our forecast.

An Indonesian court sentenced former Jakarta governor Basuki Tjahaja Purnama to two years in prison. His imprisonment and his election loss both stem ultimately from allegations that he insulted Islam. We think the Purnama story exposes deep and possibly growing national divisions between two broad groups in Indonesia: 1) the moderate Muslims and the country's various ethnic and religious minority groups, who on average are economically better-off and more educated, and 2) a larger more conservatively-orientated Muslim group, that is typically less well-off and less well-educated but which crucially is becoming politically more engaged due to social media and the growing reach of 'Islamic-populist' groups such as the Islamic Defenders Front.

Please click here to view the full report via your D&B subscription.

Country Headlines

- China - New cyber security law to impact wide range of sectors.
- Malaysia - Growth bolstered by high domestic and foreign demand.
- Singapore - Economy continues on its path of gradual improvement.
- South Korea - Rating outlook upgraded as a new presidential administration forms.
- Thailand - Real GDP forecast increased due to recovering goods exports.
- Vietnam - Trans-Pacific Partnership without the US could still be beneficial.

COUNTRY SPOTLIGHT | **WEST EDITION**

GERMANY

Polls' Indication for Angela Markel

In the economic sphere, forward-looking indicators leave room for optimism about the short-term outlook. For example, Munich-based think tank CESifo's Business Climate Index reached 114.6 points in May. We expect growth in 2017-18 to remain robust, with solid real wage growth also likely to provide uplift for household demand. Meanwhile, there is less than four months before the federal elections on 24 September, polls are showing an increasing lead for Chancellor Angela Merkel's Christian Democratic Union (CDU).

Since the start of the year, the CDU has won all three regional elections, and support for Martin Schulz, the former President of the European Parliament and the Social Democratic contender for chancellorship, has fallen considerably. A year after Merkel's approval ratings had taken a severe hit amid the refugee crisis, it now seems almost certain

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UNITED STATES OF AMERICA

Labour Market Back On Track

A confident rebound in the job market underlines our decision to maintain our forecast for 2.2% growth in 2017. The job market has been a consistent bright spot in the US economy, and the latest data indicate that it will remain a major driver of near-term growth. April saw 211,000 net new jobs added, slightly ahead of our forecast of 203,000. This was a relief following the unexpected and weather-impacted jobs gain of just 79,000 in March (revised down from 98,000). There were two main reasons that the April jobs report had taken on more significance than in recent months.

First, markets were anxious to see if the March jobs number was indeed a blip or the harbinger of an ominous slowdown in the labour market. Secondly, days before the jobs report, the Fed signalled that it will continue with its rate normalisation plans, as the drop in GDP growth in Q1 was 'likely to be transitory'.

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Country Headlines

- United Kingdom - Brexit vote has not affected overall payment performance.
- France - Country risk rating upgraded as Emmanuel Macron is elected president.
- Italy - Q1 real GDP expanded in line with expectation.
- Spain - Accelerating economic growth impacts payment performance.
- Netherlands - Political uncertainty has risen despite VVD winning the general election.
- Switzerland - Economic outlook is still sound despite energy sector uncertainty.

To read the full analysis on these countries click here or contact your local D&B office. >

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Business Information Report

UNCOVER WHAT YOU DON'T KNOW ABOUT YOUR BUSINESS PARTNERS, SUPPLIERS AND CUSTOMERS

WHY OUR REPORT?

The Business Information Report (BIR)* is the ultimate answer to your needs when you require the following information presented in a concise manner:

A) Basic information on the business profile

The BIR will provide the summary of the overall business profile including but not limited to mobile number, email address, physical address and operation background.

B) Overview on the company's cash flow

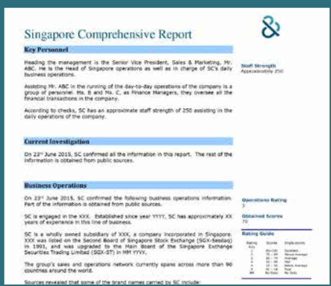
The BIR will contain the company's balance sheet, income statement, payment delinquency rate and fundamental financial ratio to facilitate faster and easier decision making process.

C) Extended information on the business operations

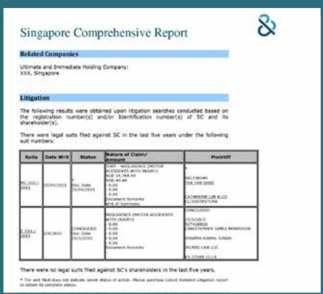
The BIR will provide details on the business principals and subsidiaries, overview on clientele and supplier base origins, and litigations involved.

Singapore Comprehensive Report

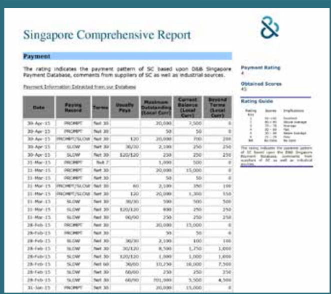
ABC PTE LTD



Singapore Comprehensive Report



Singapore Comprehensive Report



Singapore Comprehensive Report

CASE STUDY

L'Oréal has been a world leader in the business of beauty for more than a century. The company has seen styles and culture change constantly over that time, calling for cosmetics innovation that lets L'Oréal meet the infinite diversity of beauty needs and desires of men and women around the globe. When L'Oréal wanted to drive new business growth, they turned to Dun & Bradstreet to:

- Enable sales to close deals faster with the right customers
- Use data and analytics to drive profitable growth
- Detect and prevent fraud

The Solution & ROI:

With Dun & Bradstreet's trio solutions; ***D&B Business Information Reports***, D&B Direct and Lead generation, L'Oreal was able to close more deals with the right customers. They were also able to decrease bad debt and improve collaboration between sales and finance functions. This gave them more visibility into opportunities and risks with the following results:

- improved the quote-to-cash cycle: up to 5%
- decreased bad debt: 5 – 10%
- increased business growth: 5 – 10%

*Information is provided where available.

To find out how D&B can help your company to learn more on both potential and your current business affiliates, contact your local D&B office now.

dun & bradstreet

Business Information Report

CASE STUDY

INTERNATIONAL FOOD DISTRIBUTOR RELIES ON DUN & BRADSTREET TO TAKE A BITE OUT OF RISK

For more than 75 years, a Canada-based International food distributor has been a leader in quality and innovation to provide you with the freshest, highest quality food at affordable prices – all supported by unmatched customer service. Charged with the responsibility for balancing risk exposures to maintain a healthy cash flow, the company turned to Dun & Bradstreet to:

- Enable sales to close deals faster with the right customers
- Limit risk exposure and contribute to sales growth opportunities
- Detect and prevent fraud

The Solution & ROI

"D&B reporting and alerts keep the creditor aware of positive and negative trending. *[Business Information Reports]* BIR's provide a good overview of an organization and are one of the necessary tools in the credit file." The company relies on a suite of other Dun & Bradstreet solutions including D&B Country Risk Reports. Thanks to its partnership with Dun & Bradstreet, the company was able to improve collaboration between sales and finance, centralize insight for decision-making, enhance visibility into opportunities and risks, gain a clean view of data across their business, and improve fraud detection, achieving the following results:

- improved the quote-to-cash cycle: 5 – 10%
- decreased bad debt: 5 – 10%
- increased business growth: 5 – 10%
- increased operational efficiency: 5 – 10%

OUR LATEST MILESTONE

NEW SOURCE FOR PHILIPPINE TRADE DATA

"MORE PAYMENT BEHAVIOR DATA IS NOW AVAILABLE ON PHILIPPINE COMPANIES"

Dun & Bradstreet PH's team has successfully improved its trade data by 15%. This upturn, boosted our BIR deliveries with 1+ trade and 3+ trade to 70% and 67% respectively, providing a clearer picture of how the business conducts itself with its suppliers through its payment behavior, with the inclusion of Paydex.

Aside from ensuring that all 51 trade participants submit their AR monthly, a new approach in getting new participants significantly increased its trade lines to 30,000.

This new approach maximizes the available utility information acquired from Vendor Integrity Access (VIA) - an innovation from Dun & Bradstreet's current Supplier Information Report Program, where Buyers can ensure that new and existing vendors are evaluated according to risk, financial stability, and business performance.

Using the utility billings, we were are able to produce 15,492 trade lines and 30 potential participants from 2,417 vendors. We already uploaded 741 trade lines last May. An estimate increase of 25,000-30,000 trade lines and potential participants of 50-80 from this initiative is expected by the end of June.

The next step is to look for other sources of data or proxy data that can further increase our trade data and build a more transparent and better informed business climate.

To learn more about The Philippine Companies payment behavior data, contact riveram@dnb.com.ph or call +632 879 4454 / +632 879 4477

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ASIA NEWSFLASH

June 2017

ASIA PERSPECTIVES

Declining Optimism in the Industrial Sector

By Dun & Bradstreet India

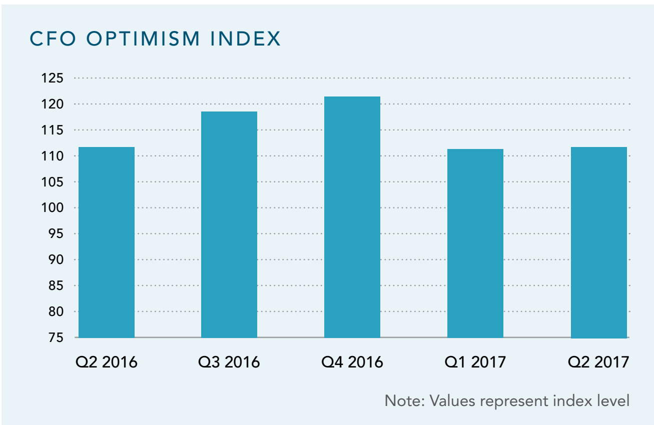
HIGHLIGHTS

Expectations index for the June quarter 2017:

- The optimism amongst the CFOs in the **industrial sector** declined, while optimism amongst CFOs in the **service sector** moderated on a y-o-y basis.
- 46% of the CFOs are optimistic about global macroeconomic scenario in Q2 2017 – **highest since Q3 2015**.
- Only 48% of the CFOs expect availability of funds in the market to increase – significantly **lower than 66%** of CFOs expecting the same in Q1 2017.
- Only 15% of the CFOs expect level of financial risks for corporate sector to decrease – **lowest in 4 quarters**.
- Approximately 36% of the CFOs in the service sector consider expansion through M&As during the next six months as compared to 22% of CFOs in the industrial sector.

CFO OPTIMISM INDEX

Optimism levels amongst CFOs remained at the samefor Q2 2017 as compared for Q1 2016 and Q2 2017. The Composite CFO Optimism Index for Q2 2017 increased merely by 0.1% on a y-o-y basis and by 0.4% on a q-o-q basis * Optimism amongst CFOs for the financial performance of the companies remained weak (declined by 4.3%; y-o-y), while it recovered for the macroeconomic condition (grew by 7.4%; y-o-y). The optimism amongst the CFOs in the industrial sector declined by 2.8% (y-o-y), while the service sector moderated for Q2 2017 on a y-o-y basis (grew by 4.3% in Q2 2017 compared to 9.9% in Q1 2017)



ASIA PERSPECTIVES

CFO OPTIMISM ON A SECTOR BASIS

During Q2 2017, the optimism level of the service sector grew by around 4.3% while the industrial sector fell by 2.8% on a y-o-y basis. However, optimism level of the CFOs in both industrial and service sector declined for the financial performance of their company on a q-o-q basis, where the service sector suffered a greater decline.

OPTIMISM AT THE COMPANY LEVEL

More than 50% of the CFOs indicated operating margin and liquidity position of their company to increase during Q2 2017, similar to Q2 in the previous year while compared to 40% and 43% respectively in Q1 2017. 59% and 65% of CFOs indicated no change in need for raising short term and long term funds respectively, which is an increase from 53% and 58% respectively, in the same quarter last year. While 88% of the CFOs anticipate cost of funds to remain same or decrease, only 48% expect availability of funds in the market to increase, significantly lower than 66% of CFOs expecting the same in Q1 2017.

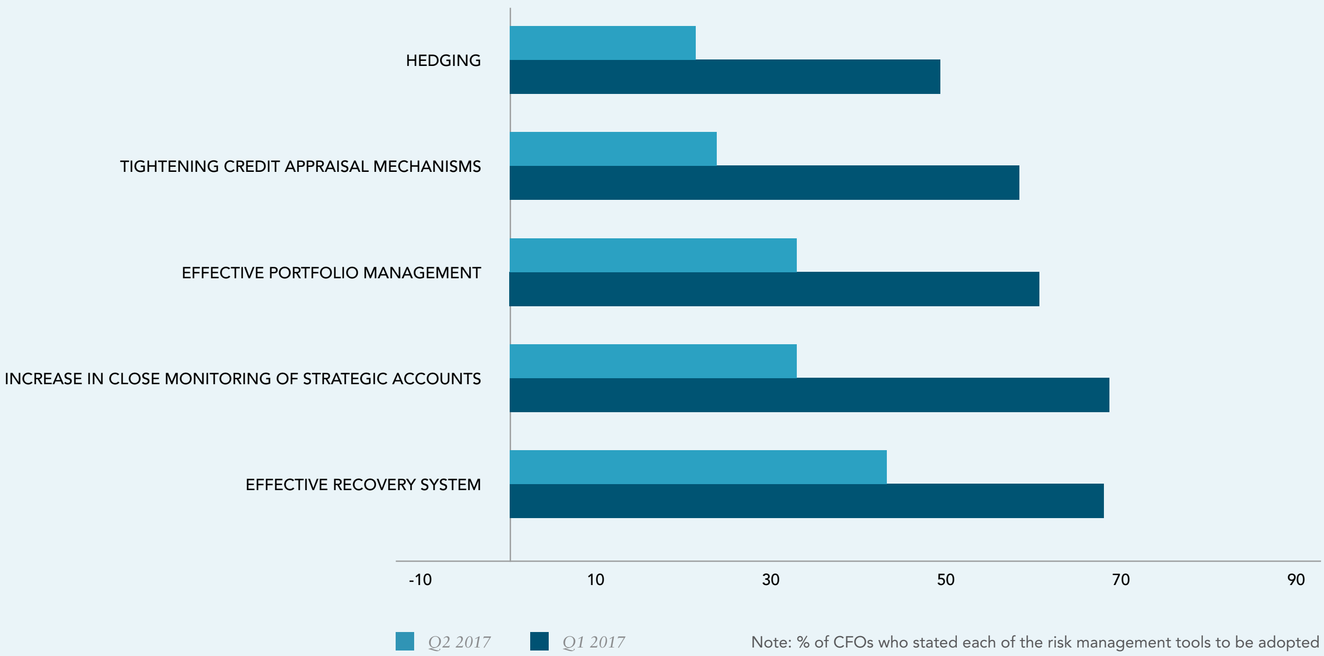
CFO PRIORITY DURING THE NEXT SIX MONTHS

Survey reveals that cost reduction (57%) followed by cashflow management (49%) and risk management (37%) have been considered by the CFOs to be their strong priorities during the next six months. Around 36% of the CFOs in the service sector consider expansion through M&As to be their priority during the next six months as compared to 22% of CFOs in the industrial sector. The least priority for the next six months was dividend declaration (12%).

RISK MANAGEMENT TOOL TO BE ADOPTED DURING THE NEXT SIX MONTHS

Effective recovery system, increase in close monitoring of strategic accounts and effective portfolio management remain the preferred risk management tools during the next six months. 59% of CFOs in the industrial sector as compared to 54% of CFOs in the service sector have indicated effective recovery system to be their risk management strategy for the next six months. Hedging (28%) remains the least preferred risk management tool during the next six months.

RISK MANAGEMENT TOOL TO BE ADOPTED DURING THE NEXT SIX MONTHS



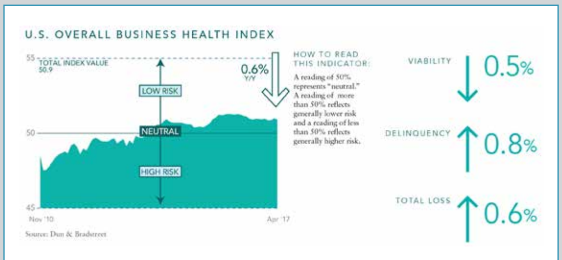
Note: % of CFOs who stated each of the risk management tools to be adopted

To read the full report, Click here >

STATESIDE

D&B's U.S. Economic Health Tracker Reveals Continued Challenges for Small Businesses Balanced by Positive Job Growth

- The SBHI fell to 88.8 points – 2 full points below the average level for past 6 months. As for the subcomponents, credit card delinquencies worsened this month. The card utilization subcomponent showed some sequential improvement, but continued losing on a Y/Y basis.
- Dun & Bradstreet forecasts the labor market to have added 182,000 jobs to U.S. payrolls during May 2017. The job market continues to operate at or near full-employment, building pressure on workers' compensation and adding to the factors keeping the Fed on track.
- Dun & Bradstreet's Overall Business Health Index (OBHI) was essentially flat on a month-to-month basis in April, declining 0.1%. Overall business health for all active U.S. businesses remains in a low risk environment but conditions have worsened since December 2015.



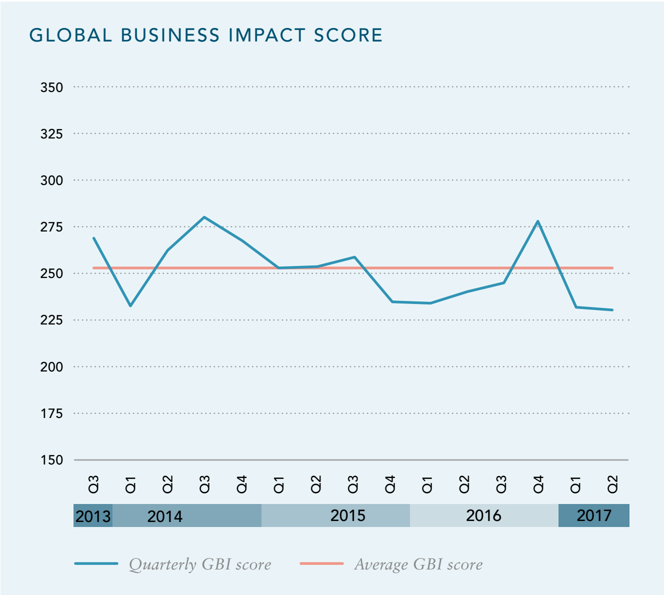
Click here to read the latest report.

10 KEY RISKS FOR BUSINESSES IN A GLOBAL ECONOMY

The Dun & Bradstreet Global Risk Matrix (GRM) ranks the biggest threats to businesses based on each risk scenario's potential impact on companies, assigning a score to each risk. The scores from the top ten risks are used to calculate an overall Global Business Impact score.

Our latest Global Business Impact (GBI) score highlights a significantly improved risk outlook for cross-border businesses: following last quarter's significant fall, the score has now declined even further, to its lowest-ever level.

The only risk emanating from the Asia Pacific region is in third place with a GBI of 26, up from 21 and fourth place in the previous report. The risk concerns possible default contagion in China, necessitating state rescues and emergency capital issues, particularly for mid-tier banks, and triggering a hard landing for the Chinese economy, in turn impacting negatively on global growth prospects.



Global Business Impact (GBI) score for Q2 2017 recorded a second consecutive all-time low, indicating a further improvement in the global business operating environment.

To understand how the 10 Key Risks affect your business, click here.

SPECIAL REPORT

Atradius Collections

ECONOMIC OUTLOOK

Prospects & Risk for Emerging Asia and Japan

THIS SPECIAL REPORT UPDATE IS BROUGHT TO OUR READERS TO SHOWCASE THE CURRENT ECONOMIC MOMENTUM WITHIN EMERGING MARKETS IN SOUTH EAST ASIA AND JAPAN. - COURTESY OF ATRADIUS.

EMERGING ASIA REMAINS THE REGION WITH THE STRONGEST GROWTH PERFORMANCE. COMPARED TO THE PREVIOUS ECONOMIC OUTLOOK, GROWTH FORECASTS HAVE BEEN REVISED UPWARD ON THE BACK OF EXPANSIONARY POLICIES IN CHINA TO MANAGE ITS ECONOMIC SLOWDOWN AND PREVENT A HARD LANDING.

POSITIVELY, EMERGING MARKETS ARE GENERALLY WELL ABLE TO WITHSTAND DOWNSIDE RISKS AS THEY HAVE REDUCED THEIR EXTERNAL VULNERABILITIES, HAVE BUILT BUFFERS IN THE GOOD TIMES, AND HAVE MADE THEIR EXCHANGE RATES MORE FLEXIBLE. THUS FAR, MARKETS HAVE TAKEN A RELATIVELY BENIGN VIEW: CAPITAL FLOWS TO ALL EMERGING MARKET REGIONS HAVE BEEN BUOYANT AND EMERGING MARKET CURRENCIES GENERALLY APPRECIATED SINCE THE START OF THE YEAR.

EMERGING ASIA: DEFYING HEADWINDS FROM OUTSIDE

With expected GDP growth rates of 5.7% in 2017 and 5.6% in 2018, emerging Asia remains the fastest growing regional economy in the world. China's economy is continuing to slow down, but – despite important vulnerabilities – can avoid a hard landing. India and Indonesia show high and accelerating growth figures. Whereas the three biggest economies walk a more or less autonomous growth path, several other emerging and developing economies in Asia are sensitive to external developments. Headwinds, particularly from the US, could slow growth but, in our baseline scenario, the impact of these external developments is not very strong.

REAL GDP GROWTH (%) – EMERGING ASIA

	2016	2017f	2018f
CHINA	6.7	6.6	6.2
HONG KONG	1.9	2.2	2.1
INDIA	7.0	7.3	7.6
INDONESIA	5.0	5.2	5.3
SINGAPORE	2.0	2.4	2.2
TAIWAN	1.5	2.1	2.0

Source: Consensus Forecasts (May 2017)

Atradius Economic Outlook - May 2017

SPECIAL REPORT

Atradius Collections

BALANCING ACT FOR CHINESE AUTHORITIES

Whereas Asia's growth performance may not suffer too much from Trump's trade policy and monetary tightening, a risk from inside can change the picture more heavily. This risk is the Chinese economy which is showing weakening growth and rising imbalances. The growth slowdown started about five years ago and is related to the economy's transition, in which the authorities aim to shift growth from exports and investments to private consumption. The government is trying to let growth slow gradually, to prevent a hard landing – accompanied by a sharp rise in unemployment and social unrest. Also, there is political pressure to smooth the growth slowdown in the run-up to the 19th National Congress of the Communist Party in the fall of this year.

At the moment, the government seems to be successful. Since the start of the year macroeconomic data improved, leading to (mild) upward revisions of growth projections by the IMF and the OECD. Reassuring was that not only retail sales and industrial production showed stronger figures, but that the forward-looking purchasing managers' indices were also up. Also the real estate sector performed well in the first months of the year, as authorities' efforts to cool the sector have yet to fully kick in. Real GDP was up a better than expected 6.9% year-onyear in Q1, largely driven by high levels of government investment in infrastructure and a recovery in exports. Looking to sectors, the pick-up in growth was driven by manufacturing and construction, as well as services though growth there eased slightly. These sectors are supported by stronger-than-expected policy support. Next to expansive fiscal policy, strong credit growth stimulates business investment and investment in the housing market. Loose monetary policy enables SOEs and lower governments to attract cheap money.

The stronger data, together with better prospects for the world economy, make a hard landing of the Chinese economy now less likely than it was half a year ago. The relatively good performance of the industry this year and high investments growth however do not imply an end of the shift to a more consumer-led and less export-driven economy. Therefore, we still expect the growth slowdown to continue and the authorities have to play a risky, but doable, balancing act of avoiding a hard landing and in the meantime driving back the imbalances in the economy. The imbalances mainly relate to state-owned enterprises (SOEs), lower governments and their financing vehicles, and the real estate and financial sectors. A closer look at these imbalances shows that the main risk is their interrelatedness.

State-owned enterprises. SOEs still account for 16% of the growth and almost half of all bank loans despite privatisations. Many SOEs work inefficiently, have weak management and depending on state aid. Large-scale restructuring is necessary, even though it will cost millions of jobs. An important vulnerability of many SOEs is their high debt. Lending has been excessive since the financial crisis, financing the strong increase in investments since then, but not always being efficient. According to the IMF, debt of non-financial companies has risen to 170% of GDP as of 2016. The Chinese authorities aim to reduce debt levels by imposing budget constraints and starting to restructure the debt. Many companies will close their doors, reducing overcapacity in the mining, steel and other heavy industries. The process of restructuring SOEs and their debt is currently slow. The problem of excessive debt, overcapacity and low productivity will continue to play for the time being, especially in the northern part of the country.

Lower governments. Lower governments play an important role in financing SOEs. Central government debt is only 19% of GDP, but so-called augmented debt, which also includes lower governments and their financing vehicles (LGFVs), increased last year to over 60% of GDP, from 47% four years earlier and the IMF expects it to rise 74% in 2021. The first LGFVs were established in the 1990s, but after the financial crisis they were used to meet growth targets through investments in infrastructure. Especially since 2014/2015, LGFVs have been increasing loan issuance significantly. Infrastructure projects are often set up by public-private partnerships, with the private party being an SOE. Real private companies find the return on investment too low, but SOEs, because of their easier financing options, accept these lower returns. The interdependence of lower governments, state enterprises and non-profitable investments in infrastructure therefore is high.

Real estate sector. A weakness among the lower governments is that they depend on developments in the real estate sector. Approximately 37% of lower government revenue comes from the sale of land and property taxes. After strong price increases in recent years, real estate prices are a bubble in the largest cities. This means a risk to the financial position of lower governments and, in fact, for the entire economy.

Financial sector. The large size of outstanding credit, but in particular the poor quality of many loans and the liquidation of state-owned enterprises, poses risks to the financial sector, which is dominated by state banks. The NPLs share was officially 1.7% at the end of 2016, but according to the IMF, more than 15% of all commercial loans to companies were at risk of default. Lack of transparency is a big problem, because it can impair trust between borrowers and providers. Stronger lending by banks led to a renewed increase in demand for shadow banking products. These grew 20% year-on-year in the first half of last year, increasing overall volume to more than 80% of GDP. Particularly smaller banks are vulnerable, due to aggressive issuance of wealth management products (WMPs), which has created a bubble that can collapse, hurting investors' confidence and leading to a credit crunch.

The government has taken several measures to moderate credit growth and bring down debt levels at the various places in the economy. Besides the aforementioned restructuring of SOEs, the authorities tightened regulation for house buyers and real estate developers. Also, they raised the minimum tariffs for mortgage loans and imposed a maximum duration. The measures, together with the economy's transition will bring down economic growth, especially next year. The official GDP growth target of 'around 6.5%' for this year is feasible, but the consensus forecast of 6.2% for 2018 in our view is on the optimistic side. Fiscal policy is to remain supportive for growth, but the firming up of monetary conditions by the central bank (also responding to higher US interest rates), the tightening of housing purchases and slowing exports growth suggests the risks are on the downside.

The authorities also took action to stem capital outflows, which started in 2014 but accelerated last year. Related to this, the Chinese currency fell and reached the lowest level in eight years. Extensive interventions did not curb the weakening, whereas reserves fell rapidly. The size of the reserves still is enormous, also in historical terms, but the rate at which reserves went down, were reason for the authorities to tighten controls on transactions under the capital account, and in some cases the current account, in November 2016. The restrictions have helped to stabilise the renminbi's exchange rate and foreign exchange reserves could rise. Capital flows even reversed in February, though this may not be a structural reversal. Probably the renminbi will depreciate slightly further and more volatility can occur during the coming period, but the risk that the authorities choose for a one-off devaluation or a float of the currency has diminished. For the time being, authorities have chosen to keep capital flows in check, in order to be able to conduct independent monetary policy and control the exchange rate (you cannot simultaneously have free capital flows, an independent monetary policy and control your exchange rate, the so called "trilemma" or "impossible trinity".

INDIA'S ECONOMY HELPED BY GOOD POLICIES

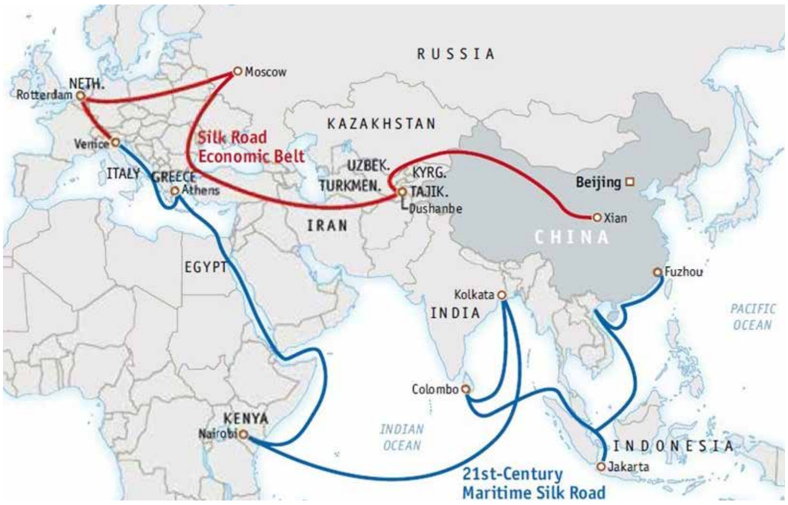
As in China, it is crucial to conduct sound economic policies in other emerging economies as well. Some countries perform better than others. India and Indonesia, the two biggest economies after China, obviously are on the good side. Since 2014, prime minister Narendra Modi and his centre-right Bharatiya Janata Party (BJP) have brought forward ambitious policies to improve the country's economic structure. The authorities already have taken major steps by improving the fiscal and monetary frameworks. Last year it was successful in passing a goods and services tax bill through parliament, which will bring Goods and Sales Tax unification across the country. The government's efforts to transform the subsidy regime by linking payments directly with people's bank accounts through a unique identification platform will result in fewer leaks associated with subsidy payments and reducing the incidence of corruption. Positive in retrospect are also the leadership and institutional changes at the Reserve Bank of India, which has ensured the independence of the monetary authorities. The same is applicable for the controversial demonetisation scheme, which will reduce corruption and only had a small and temporary negative effect on economic growth. Also, much-needed infrastructure spending has increased. Several initiatives launched by Modi may not reach the ambitious targets, like reforms to land and labour markets, and also the overhang of bad debt, that is weighing on domestic investment, still has to be addressed by the authorities. Still, on balance government policy will support economic growth in the coming years. Next to government spending, private consumption and exports are expected to perform well. Whereas India will not feel much impact from China's slowdown and possible trade measures in the US (India has a relatively closed economy), real GDP growth can reach levels of 7.3% this year and 7.6% next year.

CHINA'S INCREASING ROLE IN GLOBAL TRADE

The growth slowdown of the Chinese economy obviously has a negative effect on the region's economic performance. Recent research by the IMF shows that a one percent decline in China's growth implies a 0.3 percentage point reduction in growth for Indonesia, Malaysia, and Thailand and about 0.2 for Cambodia, Laos and Vietnam. Besides this, the IMF also expects that an economic downturn in China also may have a negative impact on asset prices and monetary conditions across the region. In an adverse scenario of a hard landing of the Chinese economy accompanied with a financial crisis, the ASEAN countries definitely will feel the impact. On the other side or this risk, China still plays a positive role for the region by stimulating trade, infrastructure investments and, therefore, economic growth. Against the context of the protectionist tendencies of US trade policy, China's initiatives on the trade and investment front are more welcome than before.

A few days before Trump's inauguration, China's president Xi Jinping delivered a strong defence of globalisation at the World Economic Forum in Davos and indicated that China will support free trade and open markets. One ambition for this is China's One-Belt-One-Road initiative (OBOR), reminiscent of the ancient Silk Road, which connected China to Central Asia and Europe. OBOR is China's modern instrument to boost regional integration by policy coordination, economic cooperation and financial collaboration, with the aim of enhancing connectivity. China not only stimulates the creation of a physical network of railways, roads, pipelines, and utility grids that links China with Europe, East Africa and other parts of Asia, but also a platform for cooperation.

THE SILK ROAD ECONOMIC BELT AND 21ST CENTURY MARITIME SILK ROAD



Source: Xinhua Finance Agency, The Economist

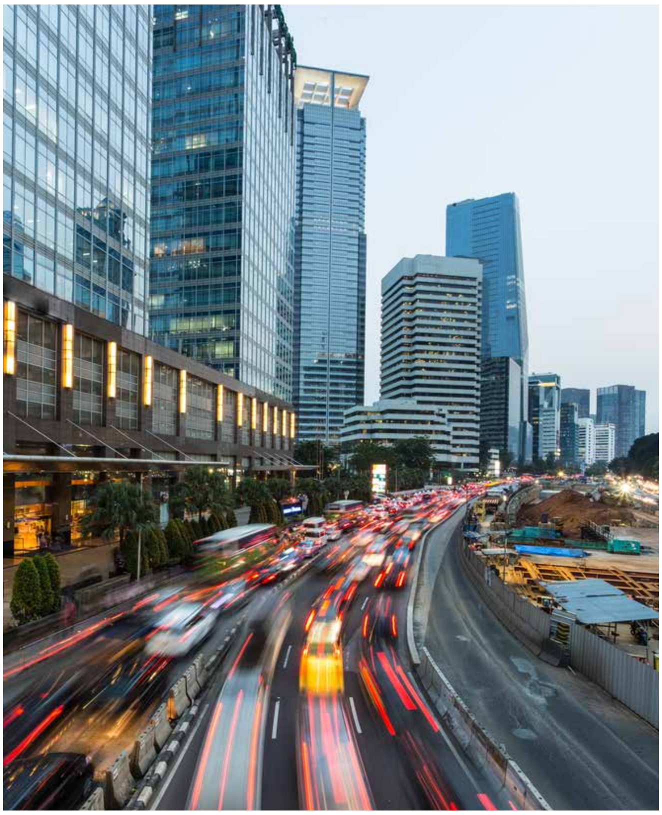
China is also a counterweight to possible protectionist tendencies in advanced markets, participating in the Regional Comprehensive Economic Partnership (RCEP). After the Trump administration decided to withdraw from the unratified TPP deal, Japan and the ASEAN countries vowed to speed up talks on RCEP, a pact launched in 2012 with the aim of deeper economic cooperation among the ASEAN countries, China, Japan, South Korea, Australia and New Zealand. The RCEP is viewed as an alternative to the TPP, which excludes China and India, and includes several nations from the Americas. RCEP sets lower standards for free trade and other cooperation, but a recent initiative by Japan to revive TPP without the US creates pressure for higher standards in the RCEP deal.

Though it is unclear yet how the different initiatives will develop, it is clear that China plays a stimulating role for regional and worldwide trade. Should Chinese authorities be successful in tackling its imbalances, lower but more sustainable growth should have a positive global impact.

SPECIAL REPORT

Atradius Collections

MORE ARDUOUS REFORMS IMPLEMENTATION IN INDONESIA



Indonesia is another example of an emerging economy in Asia with government policy helping the growth performance. GDP growth is expected to accelerate to 5.2% this year and 5.3% in 2018, from 5.0% last year, with government and business investments as the main drivers. President Joko Widodo, who took office in 2014, strives to strengthen the economy through improved infrastructure and increased foreign investments, which he sees as vital to addressing Indonesia's deficiencies. Meanwhile the government has the intention to develop the manufacturing base, diminish dependence on the resources sector and reform the low productive agricultural sector. Also, the government wants to broaden the tax base to strengthen government income and combat corruption and bureaucracy.

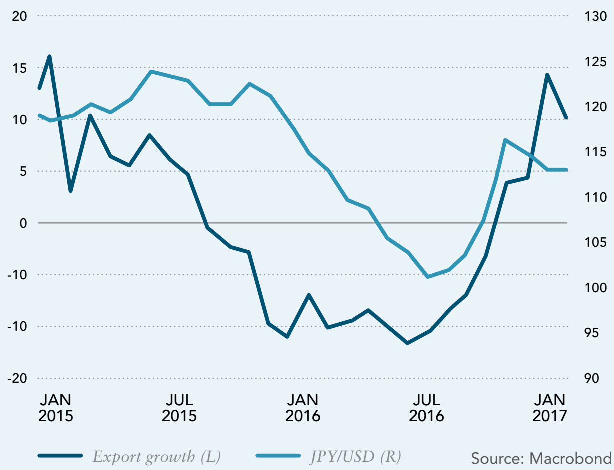
The reform-oriented government policies are implemented a bit more arduous than in India. The government simplified procedures for foreign investors and made it possible for them to be active in more sectors than before. But some large-scale foreign investments are hostage to bureaucracy and there still is protectionism in other areas, like the mining sector, which led to complaints by the US. On the other side, Indonesia is an active member of ASEAN and involved in the China-led RCEP. Recent meetings between Widodo and Australian prime minister Malcolm Turnbull have brought the two countries close to finish a free trade deal. This Indonesia- Australia Comprehensive Trade Agreement envisages the relaxation of export restrictions and is designed to strengthen businesses and generate jobs.

JAPANESE GROWTH EXCEEDS PROJECTIONS BUT WEAKNESS PERSISTS

Japanese growth picked up to 1.0% in 2016, in part driven by an upward revision of historical growth rates and strong net exports. Exports are expected to continue growing strongly in 2017, fuelling an acceleration in GDP growth to 1.4%.

2.8 YEN EASES, DRIVING EXPORT GROWTH

% change y-o-y in volume of exports vs. JPY/USD exchange rate



Source: Macrobond

The yen has depreciated some 6% relative to the USD since the election of Donald Trump, in part due to anticipation of higher interest rates in the US. The Bank of Japan (BoJ) has a -0.1% policy rate, essentially charging banks a 0.1% fee to hold a portion of their reserves. The BoJ will likely maintain this through 2017 due to deep economic weakness. While the weak yen has stimulated growth, structural impediments like demographics are likely to keep growth low. Furthermore, the yen has stabilised and it appears that further monetary policy divergence is priced in by the market so stimulus from the exchange rate may be short-lived.

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