ASEAN+3 Regional Economic Outlook 2018
Theme: Resilience and Growth in A Changing World

Report Launch
May 3, 2018, Manila
1. Macroeconomic Prospects and Challenges

2. Theme: Resilience and Growth in a Changing World
Growth in the ASEAN+3 region is resilient at above 5 percent, boosted by external demand and favourable global economic conditions, plus domestic demand.

### AMRO’s Baseline Growth and Inflation Projections

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<tbody>
<tr>
<td>China</td>
<td>6.9</td>
<td>6.6</td>
<td>6.4</td>
</tr>
<tr>
<td>Japan (FY)</td>
<td>1.8</td>
<td>1.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Korea</td>
<td>3.1</td>
<td>2.9</td>
<td>2.8</td>
</tr>
<tr>
<td>ASEAN-4 &amp; VN</td>
<td>5.4</td>
<td>5.3</td>
<td>5.3</td>
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<tr>
<td>BCLM</td>
<td>6.5</td>
<td>6.6</td>
<td>7.0</td>
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<tr>
<td>HK &amp; SG</td>
<td>3.7</td>
<td>3.2</td>
<td>2.9</td>
</tr>
<tr>
<td>ASEAN+3</td>
<td>5.6</td>
<td>5.4</td>
<td>5.2</td>
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Source: National Authorities, AMRO
Risks confronting the region are mainly external.

**Global Risk Map – Risks Facing ASEAN+3 Economies**

- Escalation of geopolitical risks in the region
- Faster-than-expected tightening in global financial conditions
- Weaker than expected growth in G3
- Sharper-than-expected slowdown in China’s growth and capital flight

Legend:
- Low Impact
- Medium Impact
- High Impact

Perennial Risks:
- Cyber-Attacks
- Climate Change
**Risks: Trade Protectionism**

Escalating global trade tensions can derail the region’s export growth given its openness to trade and extensive trade linkages through the region’s supply chains.

Source: U.S. Census Bureau, Deutsche Bank, based on data from China Customs, IMF and WIND.
Growing intra-regional demand can partially cushion the impact of external shocks such as trade protectionism.

ASEAN’s Value-added Exports (by Major Destinations)

- **2000**
  - European Union: 34%
  - U.S.: 24%
  - Central & Latin America: 18%
  - Region (CN, JP, KR & Intra-ASEAN): 22%
  - Rest of World: 22%

- **2005**
  - European Union: 36%
  - U.S.: 27%
  - Central & Latin America: 15%
  - Region (CN, JP, KR & Intra-ASEAN): 27%
  - Rest of World: 15%

- **2016**
  - European Union: 40%
  - U.S.: 31%
  - Central & Latin America: 13%
  - Region (CN, JP, KR & Intra-ASEAN): 31%
  - Rest of World: 21%

Note: Data after 2011 refer to AMRO’s estimates. Source: Bloomberg, AMRO staff estimates.
As the region has received large inflows into bond markets, the risk of outflows triggered by global tightening or confidence shocks should be closely monitored.

Source: Bloomberg
Risks: Rising Borrowing Costs

Faster-than expected tightening in global financial conditions, led by the U.S. in response to rising inflation, will pull up yields in the region.

Source: Bloomberg
Tightening global financial conditions would have greater impact through rising borrowing costs in economies where vulnerabilities such as debt have built up.

Selected ASEAN+3 Economies: Credit to Households and Private Non-Financial Corporates from All Sectors

Note: Data refers to total credit extended by domestic banks and other private institutions to private households and non-financial corporates.
Source: BIS, Haver, AMRO
Most economies are at mid-business cycle where the output gap is small. In the credit cycle, credit growth in most economies is slowing after the peak.

- Economies in mid-business cycle would not need additional policy stimulus to support growth. With the past build-up in credit, policymakers should prioritise financial stability over the growth objective in the near term.
## Recommended Policy Mix

| Monetary Policy | • Accommodative, but global tightening will constrain policy space.  
• **Tightening bias** where economies do not need further stimulus and/or where external imbalances are building up.  
• **Exchange rate flexibility** can continue to cushion impact of external shocks |
| Fiscal Policy | • **Complementing monetary policy to support growth**, subject to available fiscal space and fiscal rules, 
• Where there is no need to support growth further, targeted fiscal policy to **support structural adjustment**. |
| Macroprudential Policy | • **Safeguarding financial stability** through targeted measures in sectors (e.g. property market) where vulnerabilities have built up. |
| Structural Policy | • Complementing demand management policies, to **raise productive capacity** through building physical infrastructure and human capital, and to promote **economic diversification** in order to improve resilience in the economy. |

Source: AMRO
Macroeconomic Prospects and Challenges

Theme: Resilience and Growth in a Changing World
“Manufacturing for Exports” Strategy – Driving Growth Convergence

- **Growth and Employment**
  - Labor Shifts, Productivity Gains and Wages Increases
  - Labor Upskilling, Production Scale and Tradability

- **Manufacturing**
  - Production for global markets, economies of scale
  - FDI, Foreign Exchange

- **Exports**

- **Human Capital**

- **Physical Capital**

Source: AMRO
### “Manufacturing for Exports” Strategy

<table>
<thead>
<tr>
<th>Growth Driver</th>
<th>Challenges</th>
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<tbody>
<tr>
<td><strong>Global Value Chains (GVCs)</strong></td>
<td></td>
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<tr>
<td>• Integrated the region and made region more competitive</td>
<td>• Growing less as countries substitute imported inputs with their own production</td>
</tr>
<tr>
<td>• Eased entry into global trade for developing ASEAN economies</td>
<td>• Amplified transmission of shocks through supply chain across region</td>
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<tr>
<td><strong>Technology</strong></td>
<td></td>
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<tr>
<td>• Enabler for services sector</td>
<td>• Reduced demand for low-skilled labor in manufacturing</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td></td>
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<tr>
<td>• Becoming tradable</td>
<td>• Productivity, wages and job quality still lagging compared to manufacturing</td>
</tr>
<tr>
<td>• Matching supply with latent demand</td>
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</table>
Even as global trade growth slowed, intra-regional trade continues to grow and absorb exports from within the region.

Source: IMF, AMRO staff calculations
The automobile industry is one example a major industry in the region experiencing rapid technology change and automation, requiring labor to upskill.

**Robot Density in Automobile Sector**

- Korea: 2,500 robots per 10,000 workers
- U.S.: 2,000 robots per 10,000 workers
- Japan: 1,500 robots per 10,000 workers
- China: 1,000 robots per 10,000 workers

**Employment in Automobile Sector**

- Korea: 450,000 employees
- U.S.: 350,000 employees
- Japan: 250,000 employees
- China: 100,000 employees

Source: IFR Robotics 2017
Source: ILO
The services sector now accounts for more than half of both GDP and employment in many ASEAN+3 economies, and large shares of value-added content of exports. … and BPO sector in the Philippines is a success story, generating employment and growth.
An Augmented “Manufacturing for Exports” Strategy?

Growth and Employment

- Labor Shifts, Productivity Gains and Wages Increases
- Consumer Demand Labour Productivity
- Labor Upskilling, Production Scale and Tradability

Manufacturing
- Uberization Employment

Services
- Commoditization Tradability

Exports

Human Capital

Physical Capital

Ecosystem

Source: AMRO
Building Resilience

Our region’s strength: Ample buffers and resources for use in investing in region’s productive capacity and to deepen integration

| Trade          | • Maximise benefits from GVC integration through trade facilitation, special economic zones  
|               | • Lower costs of trade through infrastructure investment to increase connectivity  
|               | • Export to meet growing intra-regional demand (e.g. tourism)  
| Services      | • Grow services sector as additional growth engine to manufacturing  
|               | • Raise productivity of services sector through technology and liberalisation, creating skilled jobs in services sector  
| Labor policies| • Upskilling labor force, while managing social impact on unskilled labor.  

Source: AMRO
Thank You

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