Building Capacity and Connectivity for the New Economy in East Asia
2019 AREO thematic chapter: builds on 2017 narrative of economic consolidation and rebalancing after the Asian Financial Crisis (AFC), and 2018 message of resilience and growth

Summary of 2019 Thematic Chapter

3 Key Drivers:
- Technology
- Maturing population and rising middle class
- Trade protectionism, and growing regional affluence and final demand

Bridging the gaps: ASEAN+3 for ASEAN+3
- Leveraging on intra-ASEAN+3 investment to meet development needs
- Strengthening CMIM and other elements of regional financial safety net
- Developing ASEAN+3 professional expertise, technology and institutions

Section 1
Introduction

Section 2
3 Key Gaps:
- Funding gap
- Foreign exchange gap
- Factors gap

Section 3

Section 4

Section 5
Conclusion

Source: AMRO staff.
Rebalancing and resilience after the AFC: from a crisis-shaken region to one which emerged from the GFC strongly, and positioning itself for rapid growth in the years ahead.

ASEAN+3 Region’s Economic Weight: Three Snapshots

**1998**
- ASEAN’s GDP: Value USD 475 billion, Share of world’s GDP: 1.5%
- Plus 3’s GDP: Value USD 5,605 billion, Share of world’s GDP: 17.9%

**2018**
- ASEAN’s GDP: Value USD 2,970 billion, Share of world’s GDP: 3.6%
- Plus 3’s GDP: Value USD 19,797 billion, Share of world’s GDP: 23.8%

**2035**
- ASEAN’s GDP: Value USD 7,827 billion, Share of world’s GDP: 5.7%
- Plus 3’s GDP: Value USD 40,038 billion, Share of world’s GDP: 29.1%

Source: AMRO staff.
Manufacturing and Services are being transformed: need higher-technology / digital tools and tech-savvy human capital to produce and deliver new goods and services

Schematic Illustration of “New Economy”

Source: AMRO staff.
Fourth Industrial Revolution and the New Economy: Artificial Intelligence, automation, digital technology, internet of things, new service products

- Supply chains will keep evolving: tools and human capital need to keep up

Services Value Chains in the New Economy: Stylized Representation

Source: AMRO staff.
Maturing populations + expanding middle class: rapid urbanization and demand for more sophisticated goods and services

Infrastructure Needs for Demographic Shifts Alongside Economic Development

Sources: PwC; and AMRO staff.

Global Middle Class Population

Source: Kharas 2017.
Protectionism and regional integration: region has become more integrated, driven by rapid growth and economic rebalancing after the GFC.

ASEAN-4 and Vietnam (Share of Real GDP by Expenditure, Import-Adjusted Method)

- Private Consumption (Net of Imports)
- Gross Fixed Capital Formation (Net of Imports)
- Public Consumption (Net of Imports)
- Change in Stocks (Net of Imports)
- Exports (Net of Imports)

ASEAN’s Value-Added Exports (% Share, by Major Destinations)

Sources: OECD; and AMRO staff calculations/estimates
Note: Numbers may not add up due to rounding.
CLMV countries: large funding gaps being met increasingly by investment from the more advanced regional economies
- Benefited from intra-regional FDI, which has helped to plug part of their savings-investment gap

Current Account Balance: CLMV Economies

FDI Inflows into CLMV Economies from ASEAN+3 and Rest of the World

Sources: IMF; and AMRO staff calculations.
Note: Cambodia’s current account balance starts from 1992.
ASEAN-4: forex constraint a key factor holding down investment
- Need to save and build up sufficiently large foreign reserves as buffer against capital outflow risks
Foreign exchange gap captures the tension between growth and stability that has persisted in the ASEAN-4 economies for the last 20 years after the AFC.

Challenges: Inescapable Growth-Stability Tension?

“Excessive volatility reduces the room for maneuver in policymaking, and can lead to responses that hurt growth, both nationally and regionally.”

Sources: IMF; National authorities; World Bank; and AMRO staff calculations.
Hard infrastructure is indispensable for development, but soft infrastructure – including cross-country connectivity – is also key for unleashing the region’s growth potential and facilitating its transition to the “new economy”.

Hard and Soft Infrastructure and Regional Connectivity

Human Capital and Services Sector Development, 2017

Source: AMRO staff.

Bridging funding and forex gaps: ASEAN+3 should leverage on intra-regional savings and investment, and strengthen regional financial safety net.

FDI into ASEAN Economies: Selected Source Countries and Regions

Composition of Global Financial Safety Net (GFSN) [In trillions of Special Drawing Rights (SDRs)]

Sources: IMF CDIS; and AMRO staff calculations.

Source: IMF.
Regional connectivity initiatives have been stepped up.

Master Plan for ASEAN Connectivity (MPAC)

ASEAN+3 Regional Economic and Financial Cooperation

Sources: ASEAN Framework Agreement on Services (AFAS); and Master Plan for ASEAN Connectivity (MPAC) 2025.
1. Leverage on regional complementarities
2. Continue embracing multilateralism and regional integration
3. Embrace new technologies and facilitate restructuring
4. Build soft infrastructure to enhance regional connectivity
5. Strengthen governance of infrastructure projects
6. Enhance the regional financial safety net
“Rapid economic growth in the ASEAN+3 region will generate new infrastructure demand and sharpen the collective focus on meeting projected investment shortfalls. Transition to the technology-heavy and services-driven new economy could accentuate strains arising from conventional gaps facing the region, and it is imperative that the developing economies invest in human capital and leverage on the complementarities in the region. There is therefore a greater need than ever before for ASEAN+3 to embrace technology, integration, multilateralism, and further strengthening of regional financial safety nets.”
Thank You

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