ASEAN+3 Regional Economic Outlook (AREO) 2019
Theme: Building Capacity and Connectivity for the New Economy

Report Launch
1 May 2019, Nadi, Fiji
1. Macroeconomic Prospects & Challenges

2. Theme: Building Capacity and Connectivity for the New Economy
1. Macroeconomic Prospects & Challenges

2. Theme: Building Capacity and Connectivity for the New Economy
Global Risk Map – Risks Faced by ASEAN+3 Region

Perennial Risks
- Cyber-Attacks
- Climate Change

Short Term (now up to 2 yrs)
- Escalation of global trade tensions from imposition of additional tariffs by the U.S.
- Sharp slowdown in China’s growth
- Large swings in asset prices from global monetary policy shifts
- Sharp deceleration in G3 growth & weaker oil prices

Medium Term (2 to 5 yrs)
- Escalation of geopolitical risks
- Likelihood of large swings in asset prices from global monetary policy shifts

Long Term (> 5 yrs)
- Imminence of additional tariffs by the U.S.
- Imminence of geopolitical tensions

Legend:
- Low Impact
- Medium Impact
- High Impact
Baseline regional growth in 2019-20 to remain steady at the 5% level, with low inflation

AMRO’s Baseline 2019-20 Growth and Inflation Projections

<table>
<thead>
<tr>
<th>Region</th>
<th>Real GDP Growth (% y/y)</th>
<th>'18</th>
<th>'19 e/</th>
<th>'20 p/</th>
<th>Average ‘19 – ‘20</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Apr ‘19</td>
<td></td>
<td></td>
<td>Adverse Trade Scenario</td>
</tr>
<tr>
<td>China</td>
<td>6.6</td>
<td>6.3</td>
<td>6.2</td>
<td></td>
<td>5.7</td>
</tr>
<tr>
<td>Japan (FY)</td>
<td>0.6</td>
<td>0.6</td>
<td>0.5</td>
<td></td>
<td>0.4</td>
</tr>
<tr>
<td>Korea</td>
<td>2.7</td>
<td>2.6</td>
<td>2.6</td>
<td></td>
<td>2.2</td>
</tr>
<tr>
<td>ASEAN-4 &amp; VN</td>
<td>5.1</td>
<td>5.1</td>
<td>5.1</td>
<td></td>
<td>4.8</td>
</tr>
<tr>
<td>BCLM</td>
<td>6.7</td>
<td>6.9</td>
<td>6.9</td>
<td></td>
<td>6.8</td>
</tr>
<tr>
<td>HK &amp; SG</td>
<td>3.1</td>
<td>2.6</td>
<td>2.6</td>
<td></td>
<td>1.9</td>
</tr>
<tr>
<td>ASEAN+3</td>
<td>5.3</td>
<td>5.1</td>
<td>5.0</td>
<td></td>
<td>4.6</td>
</tr>
</tbody>
</table>

Legend: 
- **Upward revision from Jan ’19**
- **Downward revision from Jan ’19**
- **No change from Dec ’19**

Source: National Authorities, AMRO
Domestic demand has moderated to trend growth in 2018, after a robust 2017. The outlook is expected to be stable in 2019-20.

Source: National Authorities, AMRO
After a sharp deceleration, regional exports recovered in March '19, led by China and Vietnam

Regional Exports (Volume and in USD Terms)

Heatmap of Export Performance Selected Economies (% yoy in USD Terms)

Note: The colors represent how far the readings are away from mid-point. The redder the readings, the further the negative reading, while the greener, the greater the positive reading.

Source: National authorities, Haver Analytics
China’s exports to the U.S. remain negatively affected by the tariff measures, while exports to the European Union saw some recovery.

Source: National authorities, Haver Analytics
Regional economies with greater GVC participation & linkages with China that are oriented towards final demand outside the region are more vulnerable to trade protectionism risks.

Absolute Impact, Adverse Trade Scenario (Average Change 2019-20), in % Pts

Change in Real GDP Growth (Against Baseline), % Pts

Source: AMRO
Note: Adverse Trade Scenario refers to the escalation scenario of global trade tensions (U.S.,China), with tariffs being increased to 25% by both parties.
Financial conditions in the region have eased in recent months amid global monetary policy shifts, but the region remains susceptible to volatility shocks.

10Y Sovereign Yields
(Selected Regional Economies)

FX Performance
(Selected Regional Economies)

Source: National authorities, AMRO
Notes: Data as of 31 Mar 2019
Most economies are in the mid-phase of the business cycle, with slowing phase of the credit cycle and moderate property valuation cycle.

<table>
<thead>
<tr>
<th>Credit Cycle</th>
<th>Phase</th>
<th>Business Cycle</th>
<th>Property Valuation Cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recovery</td>
<td>Early</td>
<td>Indonesia</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Malaysia</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Thailand</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>China</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Brunei</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Myanmar</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mid</td>
<td>Cambodia</td>
<td></td>
</tr>
<tr>
<td>Expansionary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Late</td>
<td>Philippines</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Singapore</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Vietnam</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Japan</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Downturn</td>
<td>Korea</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lao PDR</td>
<td></td>
</tr>
</tbody>
</table>

Source: AMRO staff estimates.
Note: In Korea’s case, the analysis on property valuations focuses on Seoul and its surrounding areas, which has recorded high year-on-year growth in prices.
Benign inflation environment and relatively less tight global financial conditions provide some space for monetary policy to support growth

Notes: End-2018 - 2020 Taylor Rule implied rates are computed based on AMRO’s GDP and inflation projections. 2018 actual policy rate refers to the latest policy rate announced in 2018: Indonesia (20 December 2018), Malaysia (25 January 2018), the Philippines (13 December 2018), Thailand (19 December 2018), and Korea (30 November 2018). 2019 actual policy rate refers to the latest policy rate announced in early 2019: the Philippines (7 February), Korea (28 February), Malaysia (5 March 2019), Thailand (20 March 2019), and Indonesia (21 March 2019).
Source: National authorities, AMRO staff estimates and projections
However, the level of indebtedness across the region is high, which could potentially constrain the conduct of policy.
Policy mix is broadly appropriate with some recalibration to support growth

<table>
<thead>
<tr>
<th>Suggested Policy Mix</th>
<th>Monetary</th>
<th>Fiscal</th>
<th>Macroprudential</th>
<th>Structural</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>✔ Some room to ease policy given benign inflation&lt;br&gt;✔ For economies with external vulnerabilities, to hold current policy settings</td>
<td>✔ Maintain supportive policy to sustain growth&lt;br&gt;✔ Reprioriting spending, where fiscal rule is binding</td>
<td>✔ Maintain current tight policy to guard against build up of financial imbalances</td>
<td>✔ Building capacity and connectivity to foster future growth potential and resilience</td>
</tr>
</tbody>
</table>
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2. Theme: Building Capacity and Connectivity for the New Economy
“Building Capacity and Connectivity for the New Economy”

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: Conclusion

Source: AMRO staff.
Thank You

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