1 Near Term Macroeconomic Prospects & Challenges

2 Longer Term Structural Shifts: Building Capacity and Connectivity for the New Economy
Global Risk Map – Risks Faced by ASEAN+3 Region

Legend:
- **Low Impact**
- **Medium Impact**
- **High Impact**

### Perennial Risks
- Cyber-Attacks
- Climate Change

### Likelihood
- **High**
- **Medium**
- **Low**

### Imminence
- **Short Term** (now up to 2 yrs)
- **Medium Term** (2 to 5 yrs)
- **Long Term** (> 5 yrs)

- **Escalation of global trade tensions from imposition of additional tariffs by the U.S.**
- **Large swings in asset prices from global monetary policy shifts**
- **Sharp deceleration in G3 growth & weaker oil prices**
- **Sharp slowdown in China’s growth**
- **Escalation of geopolitical risks**
- **Likelihood of large swings in asset prices from global monetary policy shifts**
Regional growth in 2019-20 is expected to moderate slightly, below 5%, taking into account the re-escalation of global trade tensions and earlier policy support.

### AMRO’s Revised Baseline Growth Estimates for 2019-20 (Jun ‘19)

<table>
<thead>
<tr>
<th>Real GDP Growth (% y/y)</th>
<th>’18</th>
<th>’19 e/</th>
<th>’20 p/</th>
<th>Average ‘19 – ‘20</th>
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</thead>
<tbody>
<tr>
<td>China</td>
<td>6.6</td>
<td>6.2</td>
<td>6.1</td>
<td>5.9</td>
</tr>
<tr>
<td>Japan (FY)</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>0.4</td>
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<tr>
<td>Korea</td>
<td>2.7</td>
<td>2.4</td>
<td>2.4</td>
<td>2.1</td>
</tr>
<tr>
<td>ASEAN-4 &amp; VN</td>
<td>5.1</td>
<td>5.0</td>
<td>5.0</td>
<td>4.9</td>
</tr>
<tr>
<td>BCLM</td>
<td>6.7</td>
<td>6.8</td>
<td>6.9</td>
<td>6.9</td>
</tr>
<tr>
<td>HK &amp; SG</td>
<td>3.1</td>
<td>1.7</td>
<td>2.0</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>ASEAN+3</strong></td>
<td><strong>5.3</strong></td>
<td><strong>4.9</strong></td>
<td><strong>4.9</strong></td>
<td><strong>4.7</strong></td>
</tr>
</tbody>
</table>

Legend:
- **Upward revision from AREO 2019 (May)**
- **Downward revision from AREO 2019 (May)**
- **No change from AREO 2019 (May)**

Source: National Authorities, AMRO
Domestic demand in the region has moderated in Q1 2019, after a robust growth in early 2018. In China, recent indicators in April-May suggest a somewhat mixed outlook.

ASEAN-4 and Korea: Aggregate Final Domestic Demand

China: Domestic Demand Indicators

Source: National Authorities, AMRO
Note: Final domestic demand excludes changes in inventories
Regional exports contracted in Q1 2019, with latest April-May data indicating further weakness.

Regional Exports (Volume and in USD Terms)

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

Source: National authorities, Haver Analytics
Borrowing costs have largely declined post May 5, as major global central banks signalled more easing ahead. The KRW has weakened the most amongst regional EM peers.
Economic growth slowed down sharply in Q1 2019 and is expected to gradually recover to 6.3% for 2019 and to grow further to 6.5% for 2020.

Inflation has decelerated to around the middle of the target range and is likely to remain in the range for 2019-20.
As growth headwinds are on the rise, the policy emphasis can be oriented more toward supporting growth.

Global Exports Orders and Philippines Exports Growth

Nominal and Real Bank Lending Rate

Source: BSP, PSA, JPM/IHSM, AMRO
Notes: Data as of 6 June 2019
Policy mix is broadly appropriate with some recalibration to support growth

### Suggested Policy Mix

<table>
<thead>
<tr>
<th>Category</th>
<th>Recommendations</th>
</tr>
</thead>
</table>
| **Monetary**      | • Some room to ease policy given benign inflation  
                   • For economies with external vulnerabilities, to hold current policy settings |
| **Fiscal**        | • Maintain supportive policy to sustain growth  
                   • Reprioriting spending, where fiscal rule is binding |
| **Macroprudential**| • Maintain current tight policy to guard against build up of financial imbalances |
| **Structural**    | • Building capacity and connectivity to foster future growth potential and resilience |
1. Near Term Macroeconomic Prospects & Challenges

2. Longer Term Structural Shifts: Building Capacity and Connectivity for the New Economy
Technology (e.g. 4IR) – A growth enabler for services/new economy

Services Value Chains in the New Economy: Stylized Representation

Source: AMRO staff.
Infrastructure Needs for Demographic Shifts Alongside Economic Development

2 Maturing population & rising middle class – Driving new demand

Infrastructure Needs for Demographic Shifts Alongside Economic Development

Survival
- Water supplies
- Basic buildings
- Market stalls
- Electronic power

Basic
- Healthcare
- Education
- Transportation
- Reliable electronic power
- Waste management

Advanced
- Mass transit systems
- Commercial property
- Technology
- Global connectivity
- Advanced universities and research
- Disaster risk management

Quality of Life
- Green space
- Eco-living
- Elderly care
- Entertainment
- Leisure and culture
- Advanced digital technologies

Global Middle Class Population

People in Billion

Sources: PwC; and AMRO staff.

Source: Kharas 2017.
New Growth Drivers: Intra-Regional Demand

Growth rebalancing & regional integration – Driving regional demand

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

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.
Funding Gap in CLMV countries – Low savings rate, but high investment needs

Challenges: Funding Gap

Sources: IMF; and AMRO staff calculations.
Note: Cambodia’s current account balance starts from 1992.

Sources: ASEAN Stats Data Portal; and AMRO staff calculations.
FX Gap in ASEAN-4 & Korea – Needed to save more, holding down investment

ASEAN-4 and Korea: Current Account Balance

ASEAN-4 and Korea: Investment and Overall Real GDP Growth

Sources: IMF; and AMRO staff calculations.

Sources: 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”.

Source: AMRO staff.

While leveraging on regional initiatives

ASEAN: Master Plan for ASEAN Connectivity

ASEAN+3: Regional Economic and Financial Cooperation

Sources: ASEAN Framework Agreement on Services (AFAS); and Master Plan for ASEAN Connectivity (MPAC) 2025.
• Better positioned for the New Economy, nonetheless challenges remains

State of BPO Industry in the Philippines

A Global Leader
The 7th world's top outsourcing destinations

A Growth Driver
High Employment 575,600
High growth: ~ 10%

A Top FX Earner
Aside from overseas remittance, 2nd largest source of FX revenues
PHP: 1 billion per year

Key Challenges to the BPO Industry
Development of AI
Plateau of the industry

Sources: Business Process Outsourcing to the Philippines [Complete Guide], AMRO
The government’s “Build, Build, Build” Program will help the economy to adjust to the challenges.

Promoting infrastructure investments will support:

- Transport Infrastructure
- Tourism Development
- Agriculture Development
- Social Infrastructure Program

*Medium-Term Infrastructure Investment includes NG infrastructure, and transfers to LGUs and support to GOCCs intended for infrastructure programs/projects. Consistent with the macroeconomic assumptions and fiscal targets approved during the 175th DBCC meeting on March 13, 2019.

Sources: Briefer on the 2020 Budget Priorities Framework.
Thank You

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