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

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Jakarta, Indonesia

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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

### Escalation of global trade tensions from imposition of additional tariffs by the U.S.
- Likelihood: High
- Imminence: Medium

### Large swings in asset prices from global monetary policy shifts
- Likelihood: Medium
- Imminence: Low

### Sharp deceleration in G3 growth & weaker oil prices
- Likelihood: Medium
- Imminence: Low

### Sharp slowdown in China’s growth
- Likelihood: Low
- Imminence: Short Term (now up to 2 yrs)

### Escalation of geopolitical risks
- Likelihood: Low
- Imminence: Long Term (> 5 yrs)
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>Country/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>China</td>
<td></td>
<td>6.6</td>
<td>6.2</td>
<td>6.1</td>
<td>5.9</td>
</tr>
<tr>
<td>Japan (FY)</td>
<td></td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Korea</td>
<td></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></td>
<td>5.1</td>
<td>5.0</td>
<td>5.0</td>
<td>4.9</td>
</tr>
<tr>
<td>BCLM</td>
<td></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></td>
<td>3.1</td>
<td>1.7</td>
<td>2.0</td>
<td>1.3</td>
</tr>
<tr>
<td>ASEAN+3</td>
<td><strong>5.3</strong></td>
<td><strong>4.9</strong></td>
<td><strong>4.9</strong></td>
<td></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)

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.

10Y Sovereign Yields (Selected Regional Economies)

Source: National authorities, AMRO
Notes: Data as of 14 June 2019
Growth is expected to remain strong, underpinned by solid domestic demand. Overall BOP has reversed to a surplus on rebounding capital inflows amidst persistent current account deficits.

GDP Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1 2018</th>
<th>Q2 2018</th>
<th>Q3 2018</th>
<th>Q4 2018</th>
<th>Q1 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>5.0</td>
<td>4.9</td>
<td>5.0</td>
<td>5.1</td>
<td>5.2</td>
</tr>
<tr>
<td>2015</td>
<td>5.1</td>
<td>5.3</td>
<td>5.2</td>
<td>5.2</td>
<td>5.1</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Overall Balance of Payments

- Current account balance
- Portfolio investment, net
- Other investment, net
- Direct investment, net
- Errors and omissions
- Overall BOP

Source: National authorities, AMRO
Risks of capital flow reversal remain intact, while a weaker global outlook and re-escalation of global trade tensions could weigh further on exports.

Source: National authorities, ADB (Asian Bonds Online Database), AMRO
Most economies are in the mid-phase of the business cycle, with slowing phase of the credit cycle and moderate property price valuations.

<table>
<thead>
<tr>
<th>Credit Cycle</th>
<th>Early</th>
<th>Mid</th>
<th>Late</th>
<th>Downturn</th>
<th>Property Valuation Cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recovery</td>
<td>Indonesia</td>
<td>Malaysia</td>
<td>Thailand</td>
<td>China</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Brunei</td>
<td>Myanmar</td>
<td>Cambodia</td>
<td></td>
<td>Moderate</td>
</tr>
<tr>
<td>Expansionary</td>
<td>Philippines</td>
<td>Singapore</td>
<td>Vietnam</td>
<td>Japan</td>
<td>High</td>
</tr>
<tr>
<td>Sloping</td>
<td>Korea</td>
<td>Hong Kong</td>
<td>Lao PDR</td>
<td></td>
<td>N.A.</td>
</tr>
<tr>
<td>Contractionary</td>
<td></td>
<td></td>
<td></td>
<td></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.
Policy mix is broadly appropriate with some recalibration to support growth

**Suggested Policy Mix**

| 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 |
Outline

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

Hard infrastructure:
- Building
- Equipment/machinery
- Logistics

Soft infrastructure:
- Internal knowledge and knowhow
- External outsourcing, i.e. BPO
- Innovation and technological development

IPR protection, Regulatory framework

Service products:
- E-commerce
- Travel & tourism
- Entertainment...

Source: AMRO staff.
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

Sources: PwC; and AMRO staff.

Source: Kharas 2017.
Growth rebalancing & regional integration – Driving regional demand

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Private Consumption (Net of Imports)</th>
<th>Gross Fixed Capital Formation (Net of Imports)</th>
<th>Public Consumption (Net of Imports)</th>
<th>Change in Stocks (Net of Imports)</th>
<th>Exports (Net of Imports)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>44</td>
<td>36</td>
<td>33</td>
<td>33</td>
<td>20</td>
</tr>
<tr>
<td>2010</td>
<td>30</td>
<td>36</td>
<td>30</td>
<td>7</td>
<td>26</td>
</tr>
<tr>
<td>2016</td>
<td>37</td>
<td>33</td>
<td>37</td>
<td>4</td>
<td>25</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>European Union</th>
<th>U.S.</th>
<th>Intra Regional</th>
<th>Rest of World</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>20</td>
<td>35</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>2010</td>
<td>17</td>
<td>38</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>2016</td>
<td>28</td>
<td>32</td>
<td>14</td>
<td>13</td>
</tr>
</tbody>
</table>

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

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

Challenges: Funding Gap

Inward FDI Flows into CLMV Economies by Source Countries

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”
While leveraging on regional initiatives

ASEAN: Master Plan for ASEAN Connectivity

ASEAN+3: Regional Economic and Financial Cooperation

**Regional Initiatives**
- Advancing Economic & Financial Cooperation

**Market Access**
- ASEAN Banking Integration Framework

**Financing**
- Asian Bond Market Initiative
- Belt and Road Initiative

**Infrastructure/Connectivity**
- Partnership for Quality Infrastructure
- Masterplan for ASEAN Connectivity 2025

**Surveillance & Financial Safety Net**
- AMRO
- CMIM

Sources: ASEAN Framework Agreement on Services (AFAS); and Master Plan for ASEAN Connectivity (MPAC) 2025.
Richly endowed with more than 17,000 islands and 8 UNESCO sites, Indonesia is poised to realize its great tourism potential alongside technology upgrade and connectivity enhancement.

Indonesia: Fostering New Growth Drivers

Indonesia’s Competitiveness as a Tourist Destination

Competitors are Malaysia, the Philippines, Singapore, Thailand, and Vietnam

Source: World Travel and Tourism Council, World Economic Forum (Tourism), AMRO
“10 New Balis”
The Mid-term National Development Plan has been implemented under the strong public sector stewardship and joint funding with the private sector.


- 223 National Strategic Projects and 3 Programs: USD310 billion
- 37 Priority Projects: USD184 billion

National Strategic Projects: Funding Progress

- Budget
- SOEs
- Private sector
- Total

Source: National authorities, AMRO
Phase 1 of the National Priority Project on Jakarta MRT North-South Line completed in April 2019

Jakarta-Surabaya Toll Road – part of the National Strategic Project on Trans-Java Toll Road, open for use from December 2018

Photo courtesy of AMRO and PT GMA
Efforts to develop domestic capital markets and strengthen their long-term investor base are essential.

Size of LCY Bond Markets in ASEAN-5

Source: National authorities, ADB (Asian Bonds Online Database), AMRO
Thank You

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