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

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

Medium Term (2 to 5 yrs)
- Escalation of geopolitical risks

Long Term (> 5 yrs)
- Large swings in asset prices from global monetary policy shifts

Likelihood
- High
- Medium
- Low

Imminence
- Large swings in asset prices from global monetary policy shifts
- Sharp deceleration in G3 growth
- Sharp slowdown in China’s growth
The regional economy transited to a slower pace of expansion, with more uncertain growth trajectory ahead.

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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<tbody>
<tr>
<td></td>
<td>Jul ‘19</td>
<td></td>
<td></td>
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<tr>
<td>China</td>
<td>6.6</td>
<td>6.2</td>
<td>6.1</td>
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<td>Japan (FY)</td>
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<td>0.5</td>
<td>0.5</td>
<td>0.4</td>
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<td>ASEAN-4 &amp; VN</td>
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<td>5.0</td>
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<td>BCLM</td>
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<tr>
<td>HK &amp; SG</td>
<td>3.1</td>
<td>1.3</td>
<td>1.7</td>
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<tr>
<td>ASEAN+3</td>
<td>5.3</td>
<td>4.9</td>
<td>4.9</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Legend:  
- Upward revision from AREO 2019 (May)  
- Downward revision from AREO 2019 (May)  
- No change from AREO 2019 (May)
There has been a stepdown in domestic demand, but China’s recent policy easing will help support growth.
Regional exports continued to face external headwinds, with the more open economies being disproportionately affected.
Borrowing costs have declined as major central banks adopt easing policy bias, but in recent weeks, FX rates have come under pressure with U.S.-China re-escalation.
• In Q1 2019, GDP growth slows more than expected as exports contracted deeper and more widespread than anticipated amid US-China trade conflict, and private investment softens amid domestic political uncertainty.
• Recent net portfolio inflows have contributed to the strengthening of the Thai baht, which could pose a downside risk to exports and tourism.
• Headline inflation remains low.
The policy mix is broadly appropriate with some room for 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  
|                                       | • Reprioritizing 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 |

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

Maturing population & rising middle class – Driving new demand

New Growth Drivers: Demographics

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)

2005 2010 2016

- 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)

2005 2010 2016

- European Union
- U.S.
- Intra Regional
- Rest of World

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

Current Account Balance: CLMV Economies

- LA
- KH
- MM
- VN

Inward FDI Flows into CLMV Economies by Source Countries

Sources: IMF; and AMRO staff calculations.

Note: Cambodia’s current account balance starts from 1992.
Challenges: Foreign Exchange Gap

FX Gap in ASEAN-4 & Korea – Needed to save more, holding down investment

ASEAN-4 and Korea: Current Account Balance

% of GDP

ID  PH  MY  KR  TH

Sources: IMF; and AMRO staff calculations.

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

% of GDP

'80 - '90  '91 - '00  '01 - '10  '11 - '18  '19 - '23

Investment  Real GDP Growth (RHS)

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”...

Hard and Soft Infrastructure and Regional Connectivity

Human Capital and Services Sector Development, 2017

Source: AMRO staff.

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.

...while leveraging on regional initiatives

Regional Initiatives
- Advancing Economic & Financial Cooperation
- Infrastructure/Connectivity
- Market Access
- Financing
- Surveillance & Financial Safety Net

• ASEAN Banking Integration Framework
• Asian Bond Market Initiative
• Belt and Road Initiative
• Partnership for Quality Infrastructure
• Masterplan for ASEAN Connectivity 2025
• AMRO
• CMIM
EEC implementation is based on 3 pillars – an infrastructure upgrade, new industry development, and attracting investment. Infrastructure investment will support transportation, logistics and public utilities.

Infrastructure Upgrading in the EEC
Thailand will target 10 industries such as next-gen automotives, smart electronics, medical tourism, biotechnology, food for the future, robotics, aviation and logistics, biofuels and biochemical, digital, and medical hubs.

5 Current Industries and 5 Future Industries

Source: Thailand BOI
Thailand is strategically well-placed to be a recipient of high-technology FDI, infrastructure investments, and human capital from the region.
At the same time, Thailand is well-placed to be a subregional TCLMV center and source of investment and knowhow to other countries in the region.
Thank You

Contact Us:

ASEAN+3 Macroeconomic Research Office (AMRO)
Address: 10 Shenton Way, #15-08/9 MAS Building,
Singapore 079117
Tel : +65 6323 9844
Fax : +65 6323 9827
Email : khor.hoelee@amro-asia.org
         : vanne.khut@amro-asia.org
         : ruperto.majuca@amro-asia.org
         : anthony.tan@amro-asia.org
Website : www.amro-asia.org