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

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Near Term Macroeconomic Prospects & Challenges

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

Short Term (now up to 2 yrs):
- Sharp slowdown in China’s growth
- Large swings in asset prices from global monetary policy shifts

Medium Term (2 to 5 yrs):
- Sharp deceleration in G3 growth
- Escalation of geopolitical risks

Long Term (> 5 yrs)
- Escalation of global trade tensions from imposition of additional tariffs by the U.S.
- Cyber-Attacks
- Climate Change

Likelihood:
- Low
- Medium
- High

Imminence:
- Perennial Risks
- Large swings in asset prices from global monetary policy shifts
- Sharp deceleration in G3 growth
- Escalation of geopolitical risks
- Sharp slowdown in China’s growth
- Large swings in asset prices from global monetary policy shifts
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>Geographical Group</th>
<th>Real GDP Growth (% y/y)</th>
<th>Jul ‘19</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>5.3</td>
<td>5.0</td>
<td>5.0</td>
<td>4.9</td>
</tr>
<tr>
<td>BCLM</td>
<td></td>
<td>6.8</td>
<td>6.5</td>
<td>6.7</td>
<td>6.9</td>
</tr>
<tr>
<td>HK &amp; SG</td>
<td></td>
<td>3.1</td>
<td>1.3</td>
<td>1.7</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><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)**

Sources: National Authorities, and AMRO staff calculations.
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.

Sources: National authorities, and Haver Analytics.
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.
Malaysia’s economic growth is expected to remain moderate in 2019-20 with benign inflation, amid growing downside risks from prolonged global trade uncertainties.

Source: National authorities, AMRO
External vulnerabilities have risen as export growth has decelerated sharply, while frequent shifts in investor sentiment underscore the need to uphold fiscal consolidation and rebuild buffers.

Source: National authorities, AMRO
The policy mix is broadly appropriate with some room for recalibration to support growth

### Suggested Policy Mix

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

2. Longer Term Structural Shifts: Building Capacity and Connectivity for the New Economy
Video: Building Capacity and Connectivity for the New Economy
New Growth Drivers: Technology

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

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)

2005
- Private Consumption (Net of Imports): 44%
- Gross Fixed Capital Formation (Net of Imports): 20%
- Public Consumption (Net of Imports): 3%
- Change in Stocks (Net of Imports): 3%
- Exports (Net of Imports): 3%

2010
- Private Consumption (Net of Imports): 36%
- Gross Fixed Capital Formation (Net of Imports): 25%
- Public Consumption (Net of Imports): 7%
- Change in Stocks (Net of Imports): 4%
- Exports (Net of Imports): 26%

2016
- Private Consumption (Net of Imports): 33%
- Gross Fixed Capital Formation (Net of Imports): 37%
- Public Consumption (Net of Imports): 30%
- Change in Stocks (Net of Imports): 28%
- Exports (Net of Imports): 7%

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

2005
- European Union: 35%
- U.S.: 17%
- Intra Regional: 20%
- Rest of World: 20%

2010
- European Union: 38%
- U.S.: 14%
- Intra Regional: 15%
- Rest of World: 32%

2016
- European Union: 40%
- U.S.: 14%
- Intra Regional: 13%
- Rest of World: 33%

Sources: OECD; and AMRO staff calculations/estimates
Note: Numbers may not add up due to rounding.
Challenges: Funding Gap

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

Current Account Balance: CLMV Economies

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

Inward FDI Flows into CLMV Economies by Source Countries

- Vietnam
- Rest of World
- Korea
- Japan
- China
- Intra-ASEAN

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.

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
- Partnership for Quality Infrastructure
- Masterplan for ASEAN Connectivity 2025

Infrastructure/Connectivity
- AMRO
- CMIM

Surveillance & Financial Safety Net

Sources: ASEAN Framework Agreement on Services (AFAS); and Master Plan for ASEAN Connectivity (MPAC) 2025.
Malaysia: building capacity and connectivity for the new economy

Malaysia has attracted a more geographically diverse investor base in the “new economy” sectors, although there is scope for further growth.

Greenfield FDI into “New Economy” Sectors in ASEAN-6 Economies, 2014-19

Source: Orbis Crossborder Investment, AMRO
Malaysia can leverage on its existing pool of skilled labor, as it continues to strengthen overall regulatory framework and intellectual property protection to attract more investments.

**Availability of Skilled Employees and Know-how Rankings, 2017**

**Capacity for Innovation and Intellectual Property Protection, 2017-18**

Note: **Availability of skilled employees** is business leaders’ perceptions of the degree to which in their country of residence companies on average are able to find the skilled employees. **Know-how** refers to the breadth and depth of specialized skills used at work.

Thank You

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