ASEAN+3 Region: Resilience amid Rising External Headwinds

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Singapore

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Outline

About AMRO

ASEAN+3 Regional Economic Outlook 2019-2020

Singapore’s Economic Outlook 2019-2020
An Introduction to the ASEAN+3 Macroeconomic Research Office

Watch the video: https://www.youtube.com/watch?v=05eGbanFpc4
AMRO envisions to be an independent, credible and professional regional organization acting as a trusted policy advisor to members in the ASEAN+3 region.
The Chiang Mai Initiative Multilateralisation (CMIM) provides its members with an insurance against crisis risks.

**Membership**
10 ASEAN member countries plus China (including Hong Kong), Japan and Korea

**Objectives**
To provide USD liquidity in response to urgent short-term USD liquidity difficulties and/or balance of payments difficulties.

**Size and Financing Structure**
USD 240 billion of self-managed reserve pooling

**Facilities**
- Crisis prevention: CMIM Precautionary Line (PL)
- Crisis resolution: CMIM Stability Facility (SF)

**Mechanism**
USD liquidity is provided through swap transactions with the requesting member’s local currency

**Coordination and Surveillance Function**
Operationalization of the CMIM is coordinated by the two coordinating countries with the support of AMRO, the surveillance arm of the CMIM.
The CMIM stands at the center of ASEAN+3 regional financial safety net

With the support of the ASEAN+3 Macroeconomic Research Office (AMRO), the CMIM is expected to play a role in maintaining regional/global financial stability.

Currently the CMIM is complemented by the network of bilateral swap arrangements in the region amounting to more than USD 320 billion.
The ASEAN+3 Region Has Been Resilient

ASEAN+3 is one of the fastest-growing regions in the world, with growth rates in the past years sustaining at 5-percent level, considerably higher than global average.

Global Growth vs. Regional Growth
(2015-2020)

% yoy

6
5
4
3
2
1

Global

ASEAN+3

3.6
3.6
3.0
3.4
5.3
5.3
4.9
4.7

Average 2015-2017
2018/e
2019/p
2020/p
Average 2015-2017
2018/e
2019/p
2020/p

/e refers to estimation; /p refers to projection
Source: IMF, AMRO
Intra-regional trade among the ASEAN+3 region accounts for nearly half of its total trade in 2017, which is comparable to that of the Eurozone.

Note: The percentage of intra-regional trade to the region's total trade.
Source: IMF DOTS; AMRO staff calculations.
The size of intra-regional trade has expanded to over USD4 trillion over the past three decades.
The share of intra-regional FDI inflows in the ASEAN+3 region increased from 46.8 percent in 2002 to 55.4 percent in 2016.
Global Risk Map – Risks Faced by ASEAN+3 Region

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

- **Source:** AMRO

- **Perennial Risks:**
  - Cyber-Attacks
  - Climate Change
  - Prolonged Low Interest Rates
In view of heightened external headwinds, AMRO revised downward regional growth by 0.2 ppts in 2019 and 0.3 ppts and 2020.

### Growth Revisions: October 2019

<table>
<thead>
<tr>
<th>Real GDP Growth (% y/y)</th>
<th>2018</th>
<th>2019 e/</th>
<th>2020 p/</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>6.6</td>
<td>6.2</td>
<td>5.9</td>
</tr>
<tr>
<td>Japan</td>
<td>0.8</td>
<td>0.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Korea</td>
<td>2.7</td>
<td>1.9</td>
<td>2.2</td>
</tr>
<tr>
<td>ASEAN-4 &amp; VN</td>
<td>5.2</td>
<td>4.9</td>
<td>5.0</td>
</tr>
<tr>
<td>BCLM</td>
<td>6.4</td>
<td>6.7</td>
<td>6.8</td>
</tr>
<tr>
<td>HK &amp; SG</td>
<td>3.1</td>
<td>0.5</td>
<td>0.9</td>
</tr>
<tr>
<td>ASEAN+3</td>
<td>5.3</td>
<td>4.9</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Sources: National Authorities, and AMRO staff projections and calculations.

Note: Data refers to period averages. e/ refers to AMRO estimates and p/ refers to AMRO projections.
Spillovers from Trade Tensions: Adverse Scenario

The further escalating trade conflict will significantly impact trade-dependent regional economies.

Estimates of Impact on Real GDP Growth

- Adverse [Additional 10% on all CN and US imports]
- December planned actions [US: 15% on 160bn of CN imports, CN: 5-10% on 40bn of US imports]
- October delayed actions [US: additional 5% on 250bn]
- Sum
China’s exports to the U.S. that are subject to tariffs have continued to weaken, weighing on intra-regional export performance.

Heatmap: Regional Export Growth (in USD)

Source: National authorities; and AMRO staff calculations.

Source: USITC, AMRO staff calculations.
### Origin of Value-Added of China’s Exports to the United States (Percentage of total exports)

<table>
<thead>
<tr>
<th>Category</th>
<th>High Tech</th>
<th>Remaining Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronics</td>
<td>46</td>
<td>31</td>
</tr>
<tr>
<td>Chemical</td>
<td>60</td>
<td>29</td>
</tr>
<tr>
<td>Machinery</td>
<td>70</td>
<td>21</td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td>68</td>
<td>22</td>
</tr>
<tr>
<td>Food Products</td>
<td>75</td>
<td>19</td>
</tr>
<tr>
<td>Textiles</td>
<td>73</td>
<td>19</td>
</tr>
<tr>
<td>Wood &amp; Products</td>
<td>58</td>
<td>31</td>
</tr>
<tr>
<td>Rubber &amp; Plastics</td>
<td>61</td>
<td>28</td>
</tr>
<tr>
<td>Basic Metals</td>
<td>56</td>
<td>33</td>
</tr>
<tr>
<td>Others</td>
<td>75</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>61</td>
<td>25</td>
</tr>
</tbody>
</table>

Sources: National authorities; and AMRO staff calculations.
Several countries are benefitting from the trade and investment diversion from China.

**Monthly Growth of Exports to the US: Selected Economies**

Sources: National authorities; and AMRO staff calculations.
Chinese economy has been moderating but still held up well due to the stimulus measures. Risks are still tilted to the downside but there are signs of improvements.

**China’s GDP Growth**

Source: National Bureau of Statistics of China (NBS), AMRO staff estimate

**PMI**

Source: NBS, Caixin
The region’s fundamentals are strong, with adequate reserves.

**Buffers: The Region’s Foreign Reserves Remain Adequate**

Notes: The size of the bubbles show the relative amounts of foreign reserves size across countries. Brunei data are not shown given no data on short term external debt.

Sources: National Authorities, IMF, World Bank, AMRO staff calculations
In view of the rising downside risks to growth, policy interest rate has been reduced across major EMs in the region.

**Policy Interest Rates**

Sources: National authorities, and AMRO staff calculations.
Fiscal policies have become more expansionary, especially for economies badly affected by spillovers from the trade conflict.

Recently-announced Fiscal Packages

Sources: National authorities; and AMRO staff calculations.
Note: China’s fiscal stimulus includes RMB 2.0 trillion for tax and fee cuts, and RMB 2.15 trillion for special bonds for infrastructure.
Rising middle class and maturing population in the region will drive new demand, providing the impetus for future growth

**Global Middle Class Population**

- **2000**
  - Sub-Saharan Africa: 0.5
  - North America: 0.3
  - MENA: 0.2
  - Europe: 0.1
  - Central & South America: 0.1
  - Asia Pacific: 1.0

- **2015**
  - Sub-Saharan Africa: 1.5
  - North America: 0.3
  - MENA: 0.3
  - Europe: 0.2
  - Central & South America: 0.4
  - Asia Pacific: 1.6

- **2030**
  - Sub-Saharan Africa: 3.5
  - North America: 0.4
  - MENA: 0.5
  - Europe: 0.4
  - Central & South America: 1.2
  - Asia Pacific: 3.5

**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

**Source:** AMRO staff compilations (various sources)
The region has become more integrated, driven by rapid growth and economic rebalancing after the Global Financial Crisis.

**Final Demand in the Region**

<table>
<thead>
<tr>
<th>Year</th>
<th>% Share of Total Regional Exports (in Value-Added Terms)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>37</td>
</tr>
<tr>
<td>2016</td>
<td>45</td>
</tr>
</tbody>
</table>

**FDI Inflows into ASEAN by Major Countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Total FDI Inflows into ASEAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>15.9</td>
</tr>
<tr>
<td>JP</td>
<td>13.7</td>
</tr>
<tr>
<td>CN</td>
<td>6.6</td>
</tr>
<tr>
<td>HK</td>
<td>6.6</td>
</tr>
<tr>
<td>EU</td>
<td>5.2</td>
</tr>
<tr>
<td>US</td>
<td>14.2</td>
</tr>
<tr>
<td>KR</td>
<td>4.2</td>
</tr>
<tr>
<td>Others</td>
<td>33.6</td>
</tr>
</tbody>
</table>

Sources: OECD TiVA; and AMRO staff estimates.

Sources: ASEAN Stats Data Portal; AMRO staff calculations.
New technology is an enabler of services, reconfigures and creates new value chains

**Services Value Chains in the New Economy**

**Hard infrastructure:**
- Building
- Equipment/machinery
- Logistics

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

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

Source: AMRO staff.
The various initiatives to strengthen regional integration will further lay the foundation for resilience.

**ASEAN: Master Plan for ASEAN Connectivity**

- Sustainable Infrastructure
- Digital Innovation
- People Mobility
- Seamless Logistics
- Regulatory Excellence

**ASEAN+3: Regional Economic and 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.
Outline

- About AMRO
- ASEAN+3 Regional Economic Outlook 2019-2020
- Singapore’s Economic Outlook 2019-2020
Singapore’s growth slowed sharply to 0.1% in Q3 2019 from 3.1% in 2018 due to the contraction in the manufacturing sector and net exports.

Source: Singapore Department of Statistics, AMRO staff calculations
Exports have contracted significantly, led by electronics and chemicals.

Growth of non-oil domestic exports (NODX) by products

NODX share, 2019-to-date

Source: Enterprise Singapore, AMRO staff calculations
Inflation has continued to decline since early this year due to the slowing growth and the decline in fuel and utilities.
Total employment change remained strong in 2019, led by services and a turnaround in the construction sector.

Net Change in Employment by Sector

Changes in Employment, Thousand Persons

- Others
- Services
- Manufacturing
- Construction
- Total

The U.S.-China trade tensions and a sharp slowdown in the global economy are still the key near-term risks to Singapore.

Source: AMRO
A further trade conflict escalation and sharp global slowdown can have a large impact on Singapore given that 65% of its manufacturing and services value-added are derived from external demand.

Source: OECD Trade in Value-Added (TiVA) database, AMRO staff calculations
MAS recently eased monetary policy slightly by reducing the rate of appreciation of the SGD NEER.

Source: MAS. Department of Statistics, CEIC, AMRO staff calculations
As growth is expected to be low, targeted fiscal stimulus could be deployed to help hard-hit sectors.

**Potential Fiscal Measures to support the economy**

1. Extend tax rebates for businesses
2. Lower employers’ CPF contributions
3. Bring forward infrastructure projects
4. Accelerate reskilling efforts

**Cumulated Fiscal Reserves since FY2013**

- **Source:** MOF, AMRO staff calculations
Over the longer-term, there is room to support structural adjustments and enhance welfare, including through greater healthcare spending.

Source: World Bank, AMRO staff calculations
Authorities should continue to maintain a tight macroprudential policy stance given the recent pickup in property prices and the large supply in the coming years.

Private residential property prices and transaction volumes

Supply in the pipeline as at 3Q 2019

Source: Housing and Development Board, Urban Redevelopment Authority
Continued efforts to develop Singapore’s digital capabilities can further strengthen its position as a digital and technology hub.

**SINGAPORE AS A SERVICES 4.0 HUB**

- A Launchpad for Services 4.0
  - A #Service40Hub where #EveryBusinessADigitalBusiness and #EmpoweringPossibilities for Businesses
  - Companies

- A Competitive Workforce Augmented with Technology
  - A #DigitalTalentHub where there is a #BotForEveryWorker and #EmpoweringPossibilities for Workers
  - Workers

- A Vibrant ICM Ecosystem where Emerging Tech is made easily Accessible
  - #EmpoweringPossibilities with #GoCloudNative
  - ICM Ecosystem
Key Concluding Messages

Regional growth has slowed down amid heightened external headwinds
→ Downward revised baseline growth: 4.9% and 4.7% for 2019 & 2020
→ Learn to live and get prepared for a prolonged uncertainty, which will likely continue.

The region remains resilient in the times of uncertainty
→ Strong economic fundamentals and buffer, and covered by regional financial safety nets
→ Longer-term prospects remain positive, supported by increasing domestic and intra-regional demand, greater integration, and the adoption of new technology.

Stronger regional financial safety nets and greater regional integration is key to safeguard regional economic and financial stability

Singapore is well-positioned to weather the external headwinds
→ Policymakers have ample policy space and are well prepared to support the economy.
Thank You

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Website   : www.amro-asia.org
LinkedIn  : https://www.linkedin.com/company/amro-asia
U.S.-China Trade Tensions: Tariff Developments

U.S.' Tariffs on Chinese Imports

<table>
<thead>
<tr>
<th>Tariff Level</th>
<th>Amount (USD bil)</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>16</td>
<td>Jul 6 &amp; Aug 23, '18</td>
</tr>
<tr>
<td>16%</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>5 to 10%</td>
<td>60</td>
<td>Sep 24, '18</td>
</tr>
<tr>
<td>10%</td>
<td>35</td>
<td>Sep 1, '19</td>
</tr>
<tr>
<td>5%</td>
<td>40</td>
<td>Dec 15, '19</td>
</tr>
</tbody>
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China's Tariffs on U.S. Imports

<table>
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<td>40</td>
<td>Dec 15, '19</td>
</tr>
</tbody>
</table>

Planned Tariff Increases:
- 5 to 10% Effective Dec 15, '19
- 5 to 10% Effective Sep 1, '19
- 5 to 10% Effective Jun 1, '19

Source: AMRO staff compilations.