Global risks are changing, with geopolitical risks becoming more imminent alongside concerns over trade and financial stability.

Global Risk Map January 2020

- Escalation in global trade tensions
- Sharp deceleration in G3 growth
- Escalation in geopolitical risks
- Sharp slowdown in China’s growth
- Sudden EM risk aversion from idiosyncratic event
- Prolonged low interest rates

Perennial Risks:
- Cyber attacks
- Natural disasters
- Climate change

Legend:
- Low Impact
- Medium Impact
- High Impact

Source: AMRO staff estimates.
Compared to December 2019, the outlook for the region’s economies has improved amid moderating headwinds.

AMRO Growth Projections
December 2019 versus January 2020

<table>
<thead>
<tr>
<th>Member</th>
<th>2018</th>
<th>December 2019</th>
<th>January 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2019 e/</td>
<td>2020 p/</td>
</tr>
<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>6.5</td>
<td>6.8</td>
</tr>
<tr>
<td>HK &amp; SG</td>
<td>3.1</td>
<td>-0.3</td>
<td>0.8</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 for December were made at end-November.
Note: e/ refers to AMRO estimates and p/ refers to AMRO projections. Japan data are for calendar year.
As anticipated, aggregate regional exports have been hurt by the US-China trade tensions, although growth in services exports is still positive.

ASEAN+3: Regional Export Performance
(Percent year-on-year, 3-month moving average)

Sources: Haver Analytics; National Authorities; and AMRO staff calculations.
Other regional economies have benefited from trade diversion, as evidenced by continuing positive US demand for the region’s exports...

United States: Change in Share of Imports by Source and Tariff-hit Product Categories
(Percentage points)

- Mixed
- Capital
- Consumption
- Intermediate

ASEAN+3 (ex-China): Contributions to Export Growth
(Percentage points)

<table>
<thead>
<tr>
<th></th>
<th>Average contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>Pre- May 2018 3.37</td>
</tr>
<tr>
<td></td>
<td>Post-May 2018 0.54</td>
</tr>
<tr>
<td>US</td>
<td>Pre- May 2018 0.75</td>
</tr>
<tr>
<td></td>
<td>Post-May 2018 0.88</td>
</tr>
</tbody>
</table>

Sources: USITC DataWeb; and AMRO staff estimates.
Note: ROW = Rest of the world. Covers June 2018 – August 2019 period.

Sources: IHS Markit Global Trade Atlas; and AMRO staff estimates.
Note: ROW = Rest of the world. Pre-May 2018 refers to the period between January 2017 and May 2018.
…and the intra-regional demand for intermediate goods by some economies is consistent with supply chain re-routing

ASEAN+3 (ex-China): Intermediate Goods

Exports
(Percent year-on-year, 3-month moving average)

Contributions to Intra-regional Demand
(Percentage points)

Sources: IHS Markit Global Trade Atlas; and AMRO staff estimates.

Note: ASEAN-5 = Indonesia; Malaysia; Philippines; Thailand; and Singapore. Data for BCLMV only include Brunei Darussalam and Vietnam.
Meanwhile, there are also indications of FDI diversion in tariff-hit sectors, predominantly through co-locations.


Note: Relocation refers to a project that has been relocated from one location to another. Co-location is the moving of operations to complement the activity in an existing location. FDI data include announcements and reports of relocations and co-locations.
Downside risks to trade and market sentiment have subsided somewhat with the recent signing of the Phase One deal...

China: Additional Imports from the United States over the Next Two Years (Billions of US dollars)

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural goods</td>
<td>32.0</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>37.9</td>
<td></td>
</tr>
<tr>
<td>Energy goods</td>
<td>52.4</td>
<td></td>
</tr>
<tr>
<td>Manufactured goods</td>
<td></td>
<td>77.7</td>
</tr>
</tbody>
</table>

$200 billion

China and the United States: Key Commitments under the Phase One Deal

- The United States to lower tariffs on $120 billion of Chinese products from 15.0 percent to 7.5 percent; tariff plans on $160 billion of Chinese goods are shelved.
- China to lower non-trade barriers on several agricultural sectors (including dairy, poultry, beef).
- China to impose penalties on trade secret theft and prohibit forced disclosure of technology from US firms.
- China to lift regulations on US-owned financial firms and create improved process to allow US companies into e-payment sector.
- Both sides agree on a new enforcement mechanism that allows for bilateral consultations prior to retaliating or complaining to the WTO.

Source: Economic and Trade Agreement between the United States of America and the People's Republic of China.
Note: The agreement text does not include tariff reductions; President Trump said during the signing ceremony that the U.S. will reduce existing tariffs on List 4A from 15 percent to 7.5 percent.
but oil price shocks from rising geopolitical tensions in the Middle-East pose a risk to recovery

ASEAN+3: Non-oil and Gas and Oil and Gas Trade Balances
(Percent of GDP)

ASEAN+3: Impact on GDP Growth from a 10 Percent Rise in Oil Prices
(Percentage points)

Sources: IHS Markit Global Trade Atlas; International Monetary Fund; and AMRO staff calculations.
Note: Covers January to October 2019. Oil and gas trade balance refers to exports less imports of products under HS 2709 to 2711.

Source: AMRO staff estimates from GVAR and Oxford Economics models.
Following the deterioration in 2018, some regional stock markets had begun to pick up by late-2019...

Stock Performance
(Index, 1 January 2018 = 100)

Source: Haver Analytics.
…while the region’s EM bonds are expected to remain attractive to investors given EM resilience and the continuing search for yield.
The weakening in manufacturing activity appears to be troughing...

**ASEAN+3: Purchasing Managers’ Index - Manufacturing**

<table>
<thead>
<tr>
<th>Economies</th>
<th>2017 Jan to Dec</th>
<th>2018 Jan to Dec</th>
<th>2019 Jan to Dec</th>
<th>Change from Prev Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>PLUS-3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
<td></td>
<td>-0.2</td>
</tr>
<tr>
<td>Hong Kong*</td>
<td></td>
<td></td>
<td></td>
<td>-0.3</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
<td>3.6</td>
</tr>
<tr>
<td>Korea</td>
<td></td>
<td></td>
<td></td>
<td>-0.5</td>
</tr>
<tr>
<td>ASEAN</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td></td>
<td></td>
<td></td>
<td>0.6</td>
</tr>
<tr>
<td>Malaysia</td>
<td></td>
<td></td>
<td></td>
<td>1.3</td>
</tr>
<tr>
<td>Philippines</td>
<td></td>
<td></td>
<td></td>
<td>0.6</td>
</tr>
<tr>
<td>Singapore*</td>
<td></td>
<td></td>
<td></td>
<td>0.3</td>
</tr>
<tr>
<td>Thailand</td>
<td></td>
<td></td>
<td></td>
<td>0.8</td>
</tr>
<tr>
<td>Myanmar</td>
<td></td>
<td></td>
<td></td>
<td>0.6</td>
</tr>
<tr>
<td>Vietnam</td>
<td></td>
<td></td>
<td></td>
<td>-0.7</td>
</tr>
</tbody>
</table>

Source: IHS Markit.

Note: The PMI readings are coded by colors: The redder denotes the further below (< 45) from the diffusion level of 50 while the greener denotes the further above (> 55) from 50. Hong Kong and Singapore PMI denotes whole economy PMI.
...and the bottoming of the global semiconductor cycles augurs well for capex, if previous trends were to continue.

Sources: National Authorities; WSTS; and AMRO staff estimates.
Note: The data covers Euro Area, Japan and the United States.
Meanwhile, domestic demand has remained supportive throughout.

ASEAN-4, Vietnam, China: Contributions to Growth, Import-adjusted Method
(Percentage points)

<table>
<thead>
<tr>
<th>Year</th>
<th>Private Consumption (Net of Imports)</th>
<th>Public Consumption (Net of Imports)</th>
<th>Investment (Net of Imports)</th>
<th>Changes in inventories (Net of Imports)</th>
<th>Exports (Net of Imports)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>27.4</td>
<td>34.2</td>
<td>22.8</td>
<td>0.4</td>
<td>31.5</td>
</tr>
<tr>
<td>2011</td>
<td>26.1</td>
<td>11.8</td>
<td>31.5</td>
<td>11.8</td>
<td>19.4</td>
</tr>
<tr>
<td>2015</td>
<td>33.7</td>
<td>13.0</td>
<td>33.7</td>
<td>33.7</td>
<td>31.8</td>
</tr>
</tbody>
</table>

Sources: National Authorities; OECD and AMRO staff calculations.
Note: OECD IO Tables are only available from 2005 to 2015. Therefore, 2016–2018 estimates are based on 2015 shares.
Although debt is continuing to rise, the pace of growth has slowed in most countries...

Regional EMs and Korea: Household, Non-Financial Corporate and Government Debt
(Percent of GDP)

Sources: Bank for International Settlements; Haver Analytics; National Authorities; World Bank; and AMRO staff calculations.
Note: 2019 data refers to Q2 2019.
...and reserve buffers are generally comfortable for many in the region

ASEAN+3: Reserve Coverage, 2019

Source: Haver Analytics; National Authorities; World Bank; and AMRO staff calculations.
Note: Size of bubble denotes to individual economy's FX reserves in USD billion. Data for reserves, imports and short-term external are of latest available in 2019.
However, the uncertainty around global policymaking from mercurial trade developments tends to affect both market sentiment and economic activity.

Global Policy Uncertainty Index

GVAR: Responses to a Shock to Global Policy Uncertainty


Stock Market Returns
(Percent)

Real GDP Growth
(Percentage points)


Source: Haver Analytics; and AMRO staff estimates.
The policy mix is broadly appropriate with some recalibration to support growth

### ASEAN+3: Summary of Suggested Policy Mix

<table>
<thead>
<tr>
<th>Policy Area</th>
<th>Recommendation</th>
</tr>
</thead>
</table>
| **Monetary**    | • Some room to ease policy given benign inflation  
Ó• Hold current policy settings in economies with external vulnerabilities                                         |
| **Fiscal**      | • Maintain supportive policy to sustain growth  
Ó• Reprioritize spending, where fiscal rule is binding                                      |
| **Macroeconomic** | • Maintain current tight policy to guard against build-up of financial imbalances                                                          |
| **Structural**  | • Build capacity and connectivity to foster future growth potential and resilience  
Ó• Upgrade labour and technology to enhance existing comparative advantages, and embrace the new/digital economy to achieve high growth |
• **Silver lining for ASEAN+3 growth.** Given the progress in the US-China trade talks, supportive domestic demand, and improving economic activity indicators, the regional economy is expected to grow at 4.9 percent in 2020, an upward revision compared to our projections in December 2019.

• **Downside risks remain on the horizon.** These risks include a re-escalation in global trade tensions, a sharper-than-expected slowdown in the G3, increasing geopolitical risks (with implications for oil prices), and prolonged low interest rates.

• **The rise of trade diversion.** While some regional economies have been hit hard, others have benefited from the US-China trade tensions. Recent data suggest some diversion in trade and FDI away from China and toward some of the other economies in the region.

• **No room for complacency.** Regional policymakers have some room to adopt more accommodative monetary and fiscal policies but they need to maintain tight macroprudential policy to safeguard growth and financial stability.
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     : ong.lilian@amro-asia.org
Website   : www.amro-asia.org
Annex
### ASEAN+3: GDP and Inflation Baseline Projections by Economy

**GDP Growth (Percent year-on-year)**

<table>
<thead>
<tr>
<th>Member</th>
<th>2018</th>
<th>2019 e/</th>
<th>Dec ‘19</th>
<th>Jan ‘20</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN+3</td>
<td>5.3</td>
<td>4.9</td>
<td>4.7</td>
<td>4.9</td>
</tr>
<tr>
<td>Brunei</td>
<td>0.1</td>
<td>2.8</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Cambodia</td>
<td>7.5</td>
<td>7.1</td>
<td>7.0</td>
<td>7.0</td>
</tr>
<tr>
<td>China</td>
<td>6.6</td>
<td>6.1</td>
<td>5.9</td>
<td>6.1</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>3.0</td>
<td>-1.3</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.2</td>
<td>5.1</td>
<td>5.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Japan</td>
<td>0.8</td>
<td>1.1</td>
<td>0.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Korea</td>
<td>2.7</td>
<td>1.9</td>
<td>2.2</td>
<td>2.4</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>6.3</td>
<td>6.3</td>
<td>6.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.7</td>
<td>4.5</td>
<td>4.3</td>
<td>4.5</td>
</tr>
<tr>
<td>Myanmar</td>
<td>6.8</td>
<td>6.8</td>
<td>7.1</td>
<td>7.1</td>
</tr>
<tr>
<td>Philippines</td>
<td>6.2</td>
<td>6.0</td>
<td>6.4</td>
<td>6.4</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.1</td>
<td>0.7</td>
<td>1.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Thailand</td>
<td>4.1</td>
<td>2.7</td>
<td>3.1</td>
<td>3.1</td>
</tr>
<tr>
<td>Vietnam</td>
<td>7.1</td>
<td>7.0</td>
<td>6.8</td>
<td>6.9</td>
</tr>
</tbody>
</table>

**Inflation (Percent year-on-year; Period Average)**

<table>
<thead>
<tr>
<th>Member</th>
<th>2018</th>
<th>2019 e/</th>
<th>Dec ‘19</th>
<th>Jan ‘20</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN+3</td>
<td>2.5</td>
<td>2.2</td>
<td>2.4</td>
<td>2.3</td>
</tr>
<tr>
<td>Brunei</td>
<td>0.2</td>
<td>-0.4</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Cambodia</td>
<td>2.5</td>
<td>1.9</td>
<td>2.5</td>
<td>2.1</td>
</tr>
<tr>
<td>China</td>
<td>2.1</td>
<td>2.8</td>
<td>2.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2.4</td>
<td>3.2</td>
<td>2.7</td>
<td>2.5</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3.1</td>
<td>3.0</td>
<td>3.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Japan</td>
<td>1.0</td>
<td>0.5</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Korea</td>
<td>1.5</td>
<td>0.4</td>
<td>0.7</td>
<td>0.9</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>2.0</td>
<td>3.3</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.0</td>
<td>0.7</td>
<td>2.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Myanmar</td>
<td>8.8</td>
<td>8.6</td>
<td>9.0</td>
<td>7.9</td>
</tr>
<tr>
<td>Philippines</td>
<td>5.3</td>
<td>2.5</td>
<td>2.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.4</td>
<td>0.5</td>
<td>0.7</td>
<td>1.1</td>
</tr>
<tr>
<td>Thailand</td>
<td>1.1</td>
<td>0.8</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Vietnam</td>
<td>3.5</td>
<td>2.8</td>
<td>2.5</td>
<td>3.3</td>
</tr>
</tbody>
</table>
ASEAN+3: Manufacturing and Services PMI
(Index, 50 = Breakeven level)

Sources: IHS Markit; and Haver Analytics.
Note: A reading above breakeven level of 50 denotes expansion in activity while a reading below 50 denotes contraction.
Sino-US Trade Tensions: Tariff Developments

**US Tariffs on Chinese Imports**
(Billions of US dollars)

- Tariff: 15% Effective Sep 1, 2019
- Tariff: 10% Effective Sep 24, 2018
- Tariff: 25% Effective Jul 6 & Aug 23, 2018

Accumulated tariff excluded imports amount to 1.3% of the 16 billion list.
Accumulated tariff excluded imports amount to 9.7% of the 34 billion list.

**China Tariffs on US Imports**
(Billions of US dollars)

- Tariff: 5 to 10% Effective Sep 1, 2019
- Tariff: 5 to 10% Effective Sep 24, 2018
- Tariff: 25% Effective Jul 6 & Aug 23, 2018

Planned Oct 1, 2019 Tariff Increases on Services
Imports: 10% Suspended

Planned Dec 15, 2019 Tariff Increases:
5 to 10% Suspended

Source: AMRO staff compilations.
ASEAN-4 and Korea: Current Policy Rates Compared to Taylor Rule Estimates (Percent)

Source: Haver Analytics; and AMRO staff estimates.
**Share of Co-locations by Tariff-Hit Sectors**
(Announced, billions of US dollars)

**2018**
- **China-ASEAN**: Transport Manufacturing 24%
  - Textiles & Clothing Manufacturing / Textile & Clothing Accessories 1%
  - Industrial, Electric & Electronic Machinery 9%
  - Communications 1%
  - Wood, Furniture and Paper Manufacturing 2%
  - Chemicals, Petroleum, Rubber & Plastic 93%

**US to China**: Transport Manufacturing 80%
- Chemicals, Petroleum, Rubber & Plastic 20%

**2019**
- **China-ASEAN**: Transport Manufacturing 11%
  - Industrial, Electric & Electronic Machinery 41%
  - Communications 1%
  - Chemicals, Petroleum, Rubber & Plastic 34%
  - Leather, Stone, Clay & Glass products 1%
  - Metals and Metal Products 3%
  - Wood, Furniture and Paper Manufacturing 9%

**US to China**: Transport Manufacturing 34%
- Chemicals, Petroleum, Rubber & Plastic 35%
- Industrial, Electric & Electronic Machinery 31%


Note: Co-location is the moving of operations to complement the activity in an existing location. FDI data include announcements and reports of relocations and co-locations.
CPTPP and RCEP in figures

CPTPP and RCEP Member Countries

- Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)
  - Australia
  - Brunei
  - Japan
  - Malaysia
  - New Zealand
  - Singapore
  - Vietnam
  - Canada
  - Chile
  - Mexico
  - Peru

- Regional Comprehensive Economic Partnership (RCEP)
  - China
  - Cambodia
  - India
  - Indonesia
  - Korea
  - Laos
  - Myanmar
  - Philippines
  - Thailand

Real Income and Exports Effects of CPTPP and RCEP
(Billions of US dollars, 2030 levels)

CPTPP and RCEP in figures

**GDP**
(Trillions of US dollars)

**Goods Trade**
(Trillions of US dollars)

**Population**
(Billions)

**FDI Inflows**
(Billions of US dollars)

Sources: UNCTAD; World Bank; and IMF WEO.