

# ASEAN+3 Regional Economic Outlook 2018

Theme: Resilience and Growth in A Changing World

12 June 2018  
Bangkok, Thailand

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## Macroeconomic Prospects and Challenges

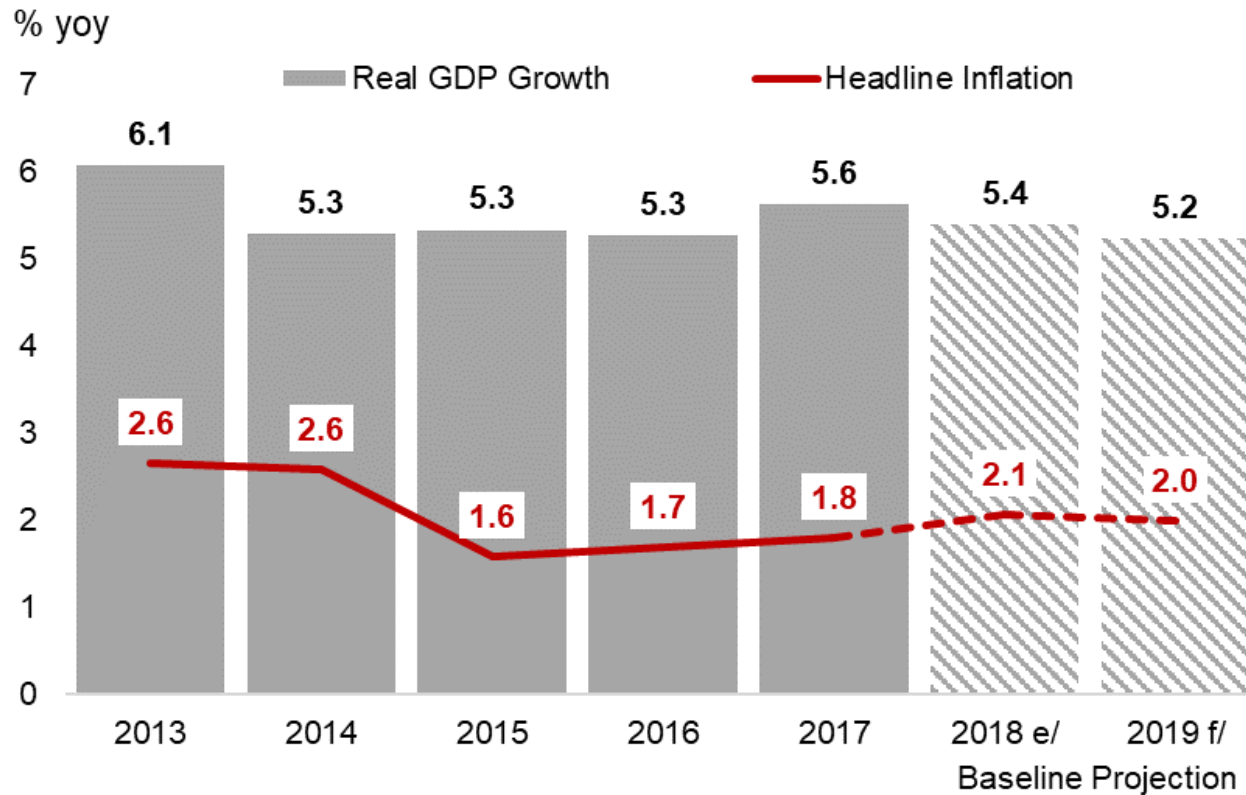
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**Theme: Resilience and Growth in a Changing World**

## Baseline: Resilient Growth and Stable Inflation

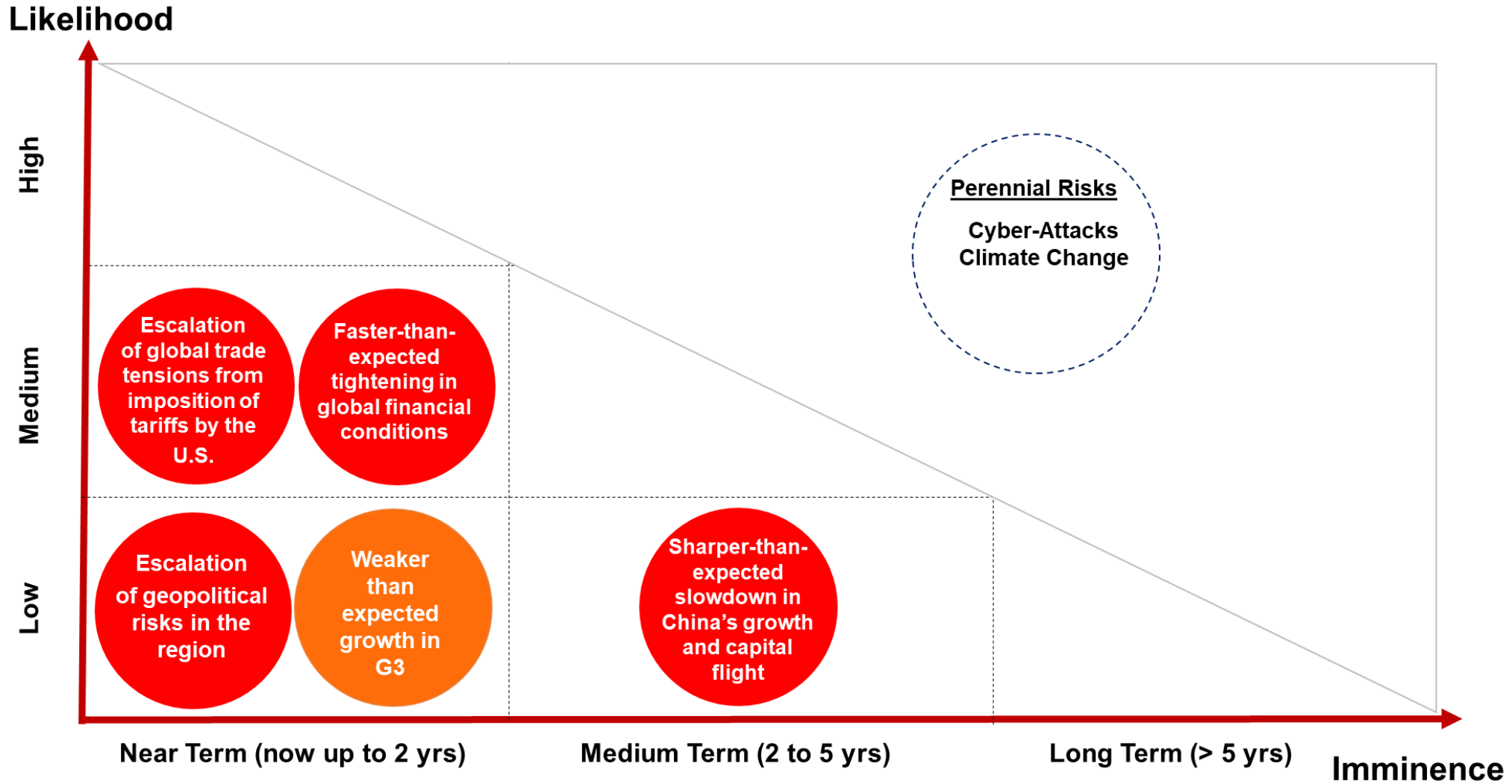
Growth in the ASEAN+3 region is resilient at above 5 percent, boosted by external demand and favourable global economic conditions, plus domestic demand.

AMRO's Baseline Growth and Inflation Projections



Real GDP growth % yoy	'17	'18 e/	'19 p/
		Latest Estimates (Mar '18)	Latest Estimates (Mar'18)
China	6.9	6.6	6.4
Japan (FY)	1.8	1.3	0.7
Korea	3.1	2.9	2.8
ASEAN-4 & VN	5.4	5.3	5.3
BCLM	6.5	6.6	7.0
HK & SG	3.7	3.2	2.9
<b>ASEAN+3</b>	<b>5.6</b>	<b>5.4</b>	<b>5.2</b>

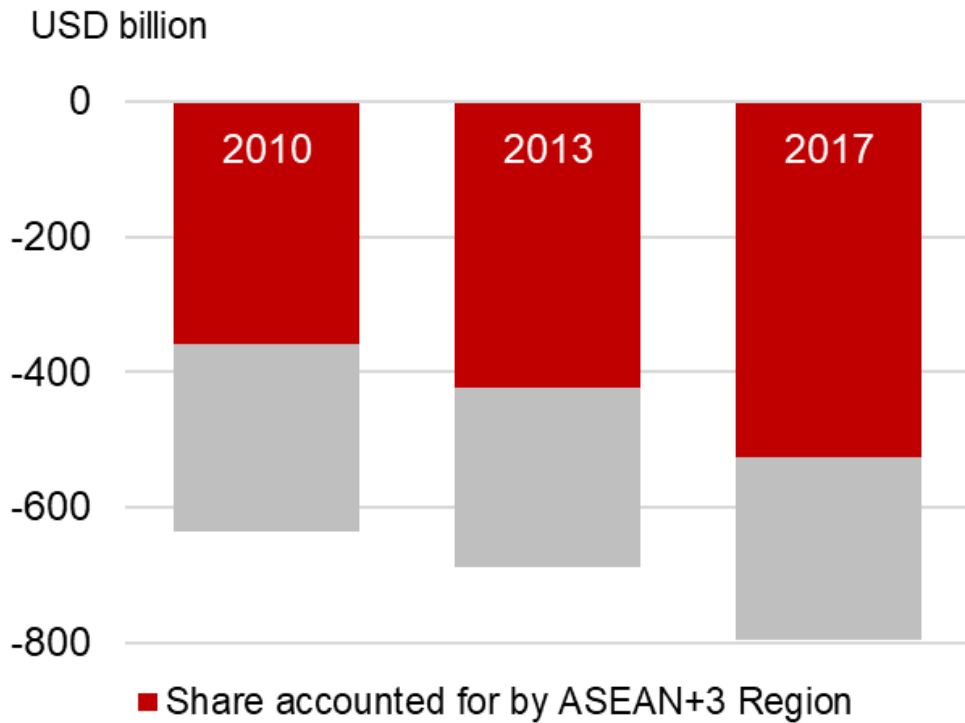
Risks confronting the region are mainly external.



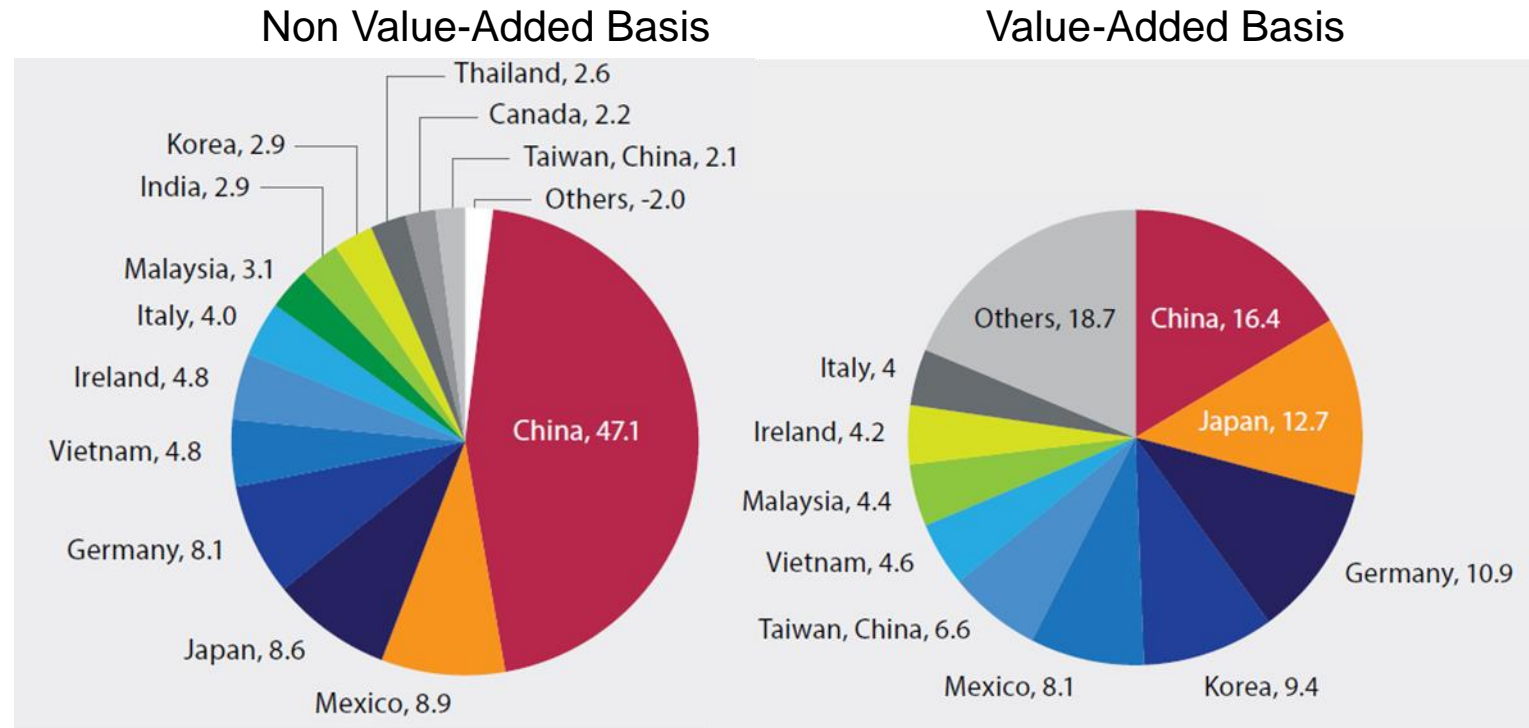
Legend: ● Low Impact ● Medium Impact ● High Impact

**Escalating global trade tensions can derail the region’s export growth given its openness to trade and extensive trade linkages through the region’s supply chains.**

U.S. Merchandise Trade Deficits

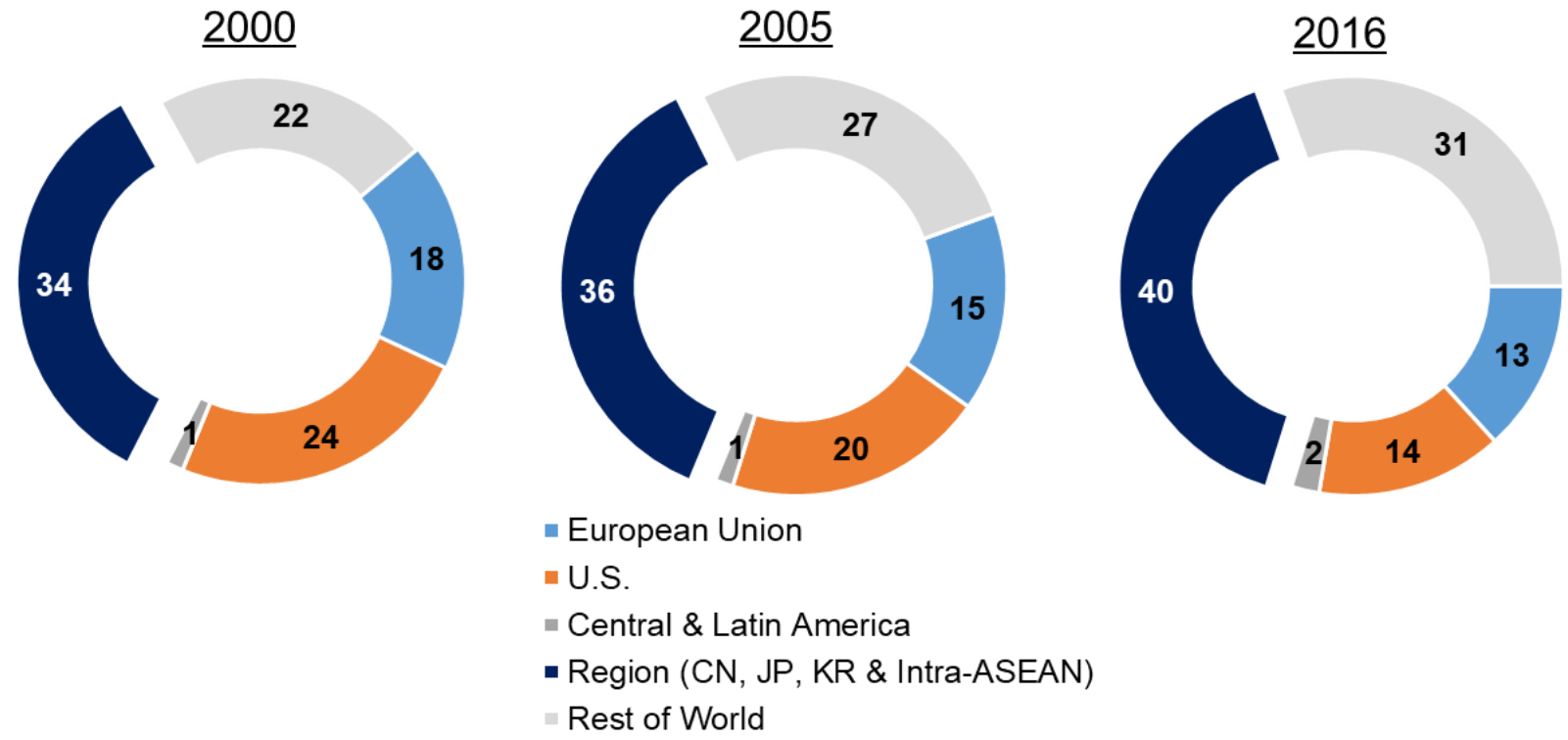


Regional Economies’ Contribution to U.S. Merchandise Trade Deficit (2015)



# Growing intra-regional demand can partially cushion the impact of external shocks such as trade protectionism

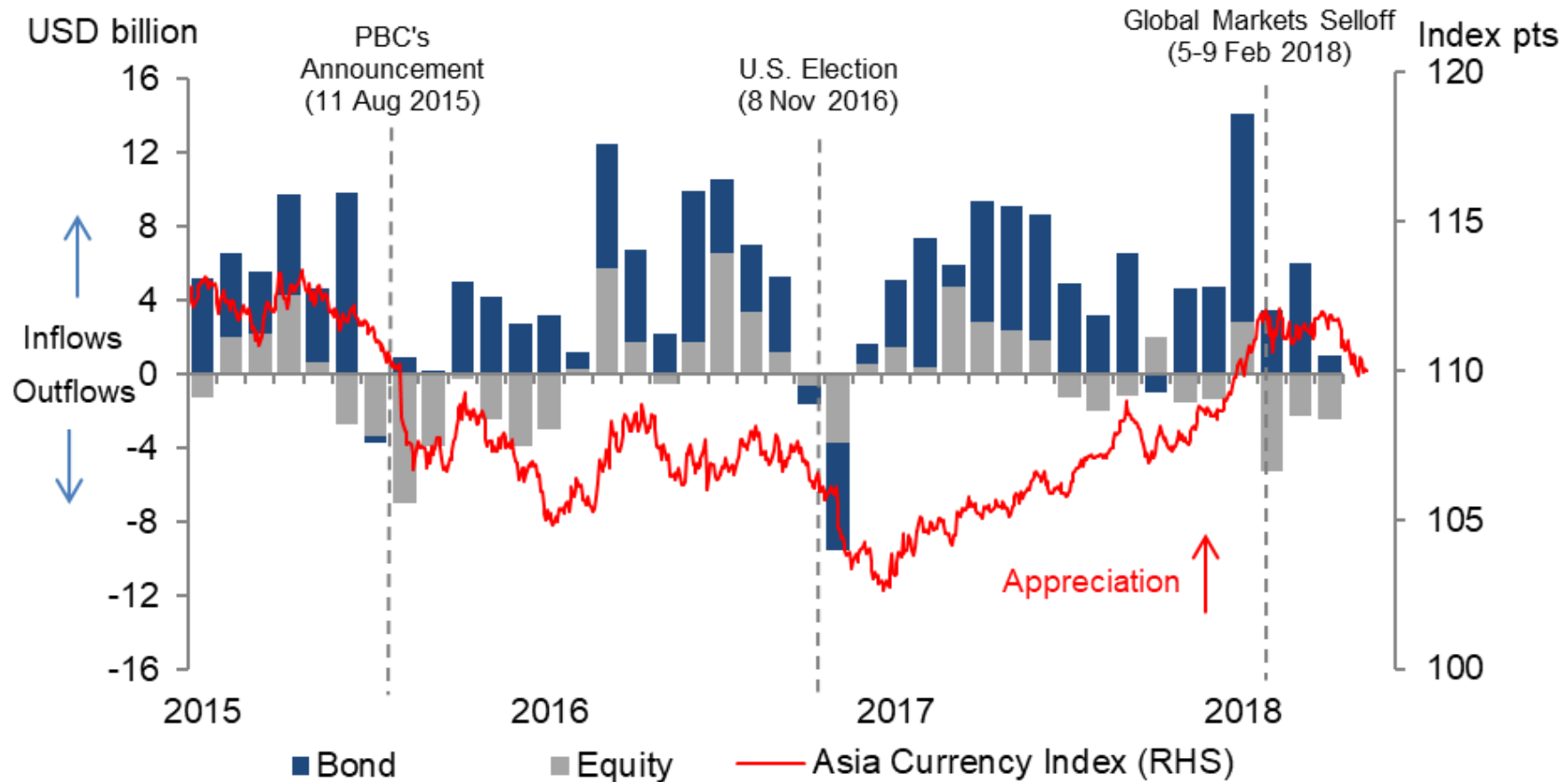
ASEAN's Value-added Exports (by Major Destinations)



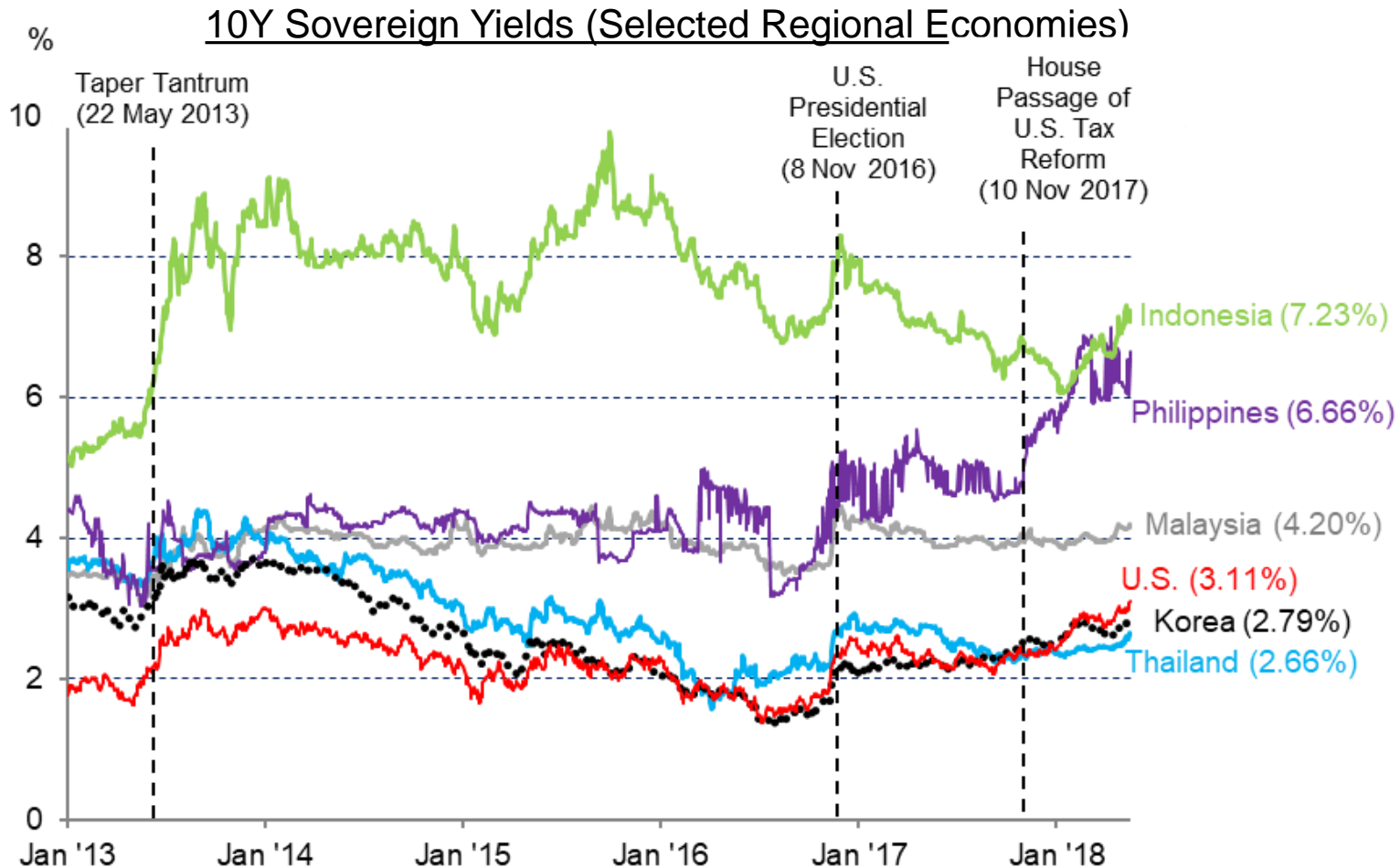
Note: Data after 2011 refer to AMRO's estimates.  
Source: Bloomberg, AMRO staff estimates

As the region has received large inflows into bond markets, the risk of outflows triggered by global tightening or confidence shocks should be closely monitored.

Non-Resident Net Capital Flows (ASEAN-4, VN and Korea)



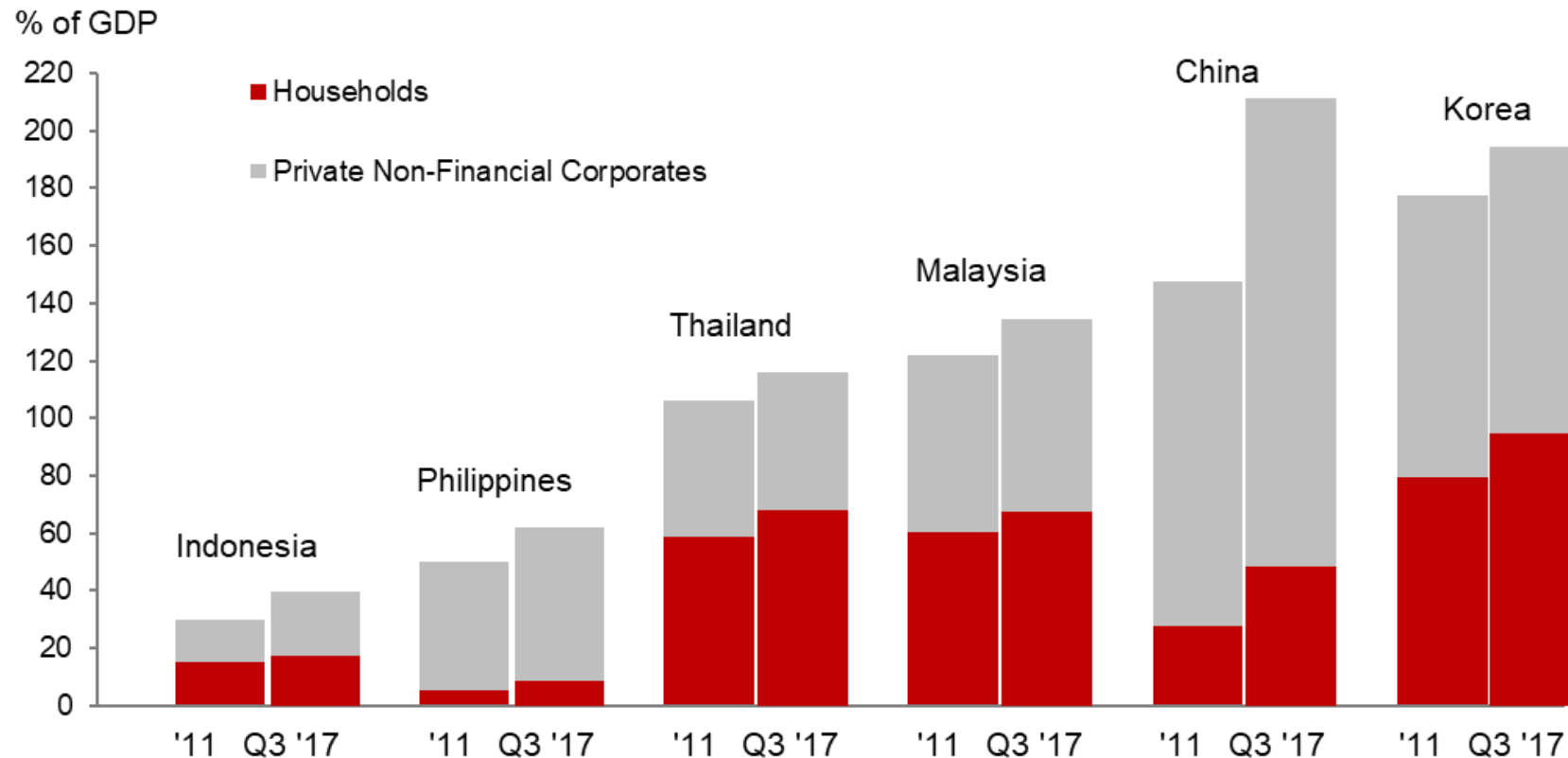
**Faster-than expected tightening in global financial conditions, led by the U.S. in response to rising inflation, will pull up yields in the region.**





**Tightening global financial conditions would have greater impact through rising borrowing costs in economies where vulnerabilities such as debt have built up.**

Selected ASEAN+3 Economies: Credit to Households and Private Non-Financial Corporates from All Sectors



Note: Data refers to total credit extended by domestic banks and other private institutions to private households and non-financial corporates.

Source: BIS, Haver, AMRO

**Most economies are at mid-business cycle where the output gap is small. In the credit cycle, credit growth in most economies is slowing after the peak.**

- Economies in mid-business cycle would not need additional policy stimulus to support growth. With the past build-up in credit, policymakers should prioritise financial stability over the growth objective in the near term.

## ASEAN+3 Economies in Business and Credit Cycles

		Credit Cycle			
		Recovery	Expansionary	Slowing	Contractionary
Business Cycle	Early	Brunei Indonesia		Myanmar	
	Mid	Thailand	Hong Kong Vietnam	Cambodia China Korea Lao PDR Malaysia Singapore	
	Late			Japan The Philippines	
	Downturn				

<b>Monetary Policy</b>	<ul style="list-style-type: none"><li>• <b>Accommodative, but global tightening will constrain policy space.</b></li><li>• <b>Tightening bias</b> where economies do not need further stimulus and/or where external imbalances are building up.</li><li>• <b>Exchange rate flexibility</b> can continue to cushion impact of external shocks</li></ul>
<b>Fiscal Policy</b>	<ul style="list-style-type: none"><li>• <b>Complementing monetary policy to support growth</b>, subject to available fiscal space and fiscal rules,</li><li>• Where there is no need to support growth further, targeted fiscal policy to <b>support structural adjustment</b>.</li></ul>
<b>Macroprudential Policy</b>	<ul style="list-style-type: none"><li>• <b>Safeguarding financial stability</b> through targeted measures in sectors (e.g. property market) where vulnerabilities have built up.</li></ul>
<b>Structural Policy</b>	<ul style="list-style-type: none"><li>• Complementing demand management policies, to <b>raise productive capacity</b> through building physical infrastructure and human capital, and to promote <b>economic diversification</b> in order to improve resilience in the economy.</li></ul>

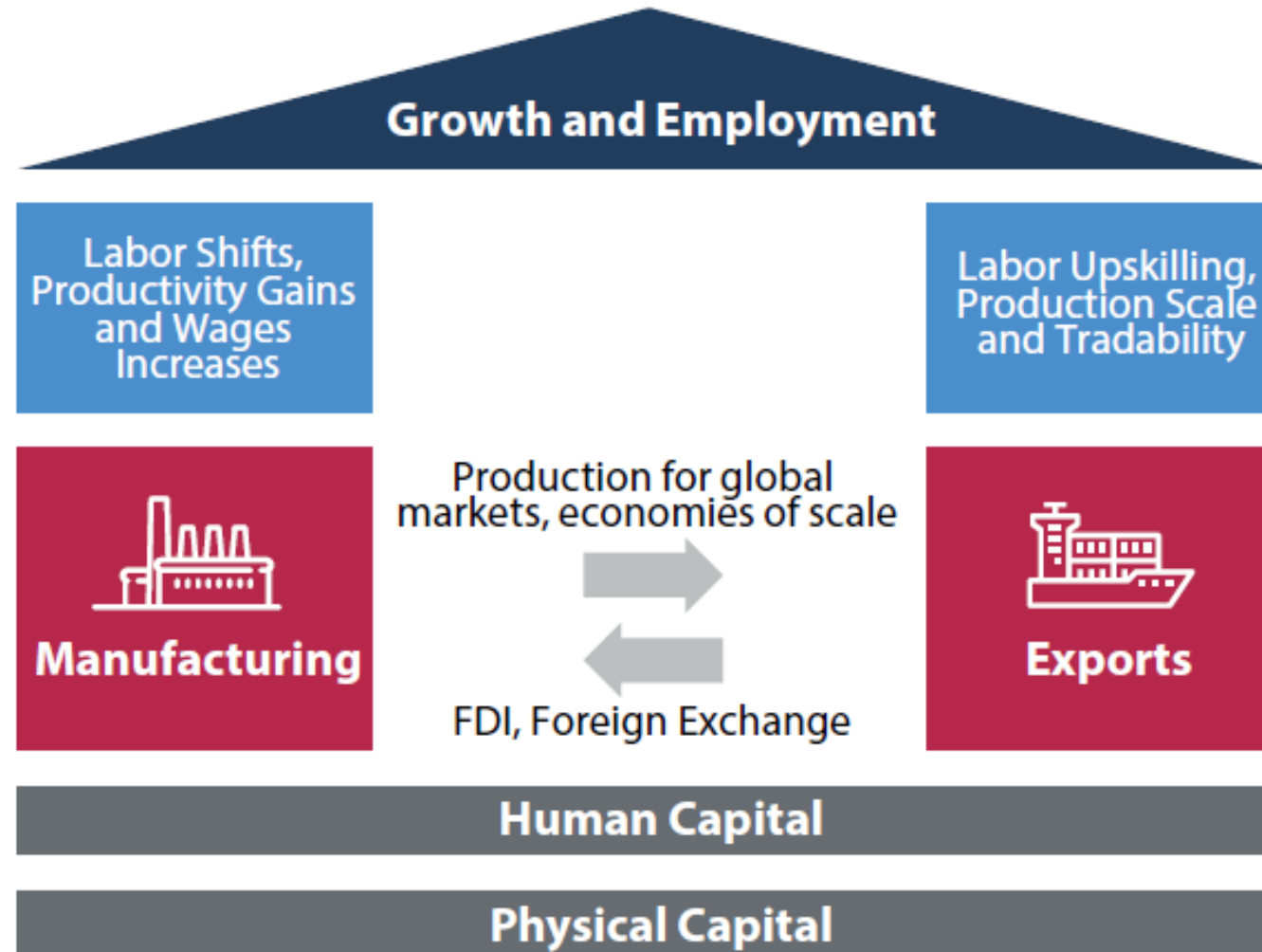
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## Macroeconomic Prospects and Challenges

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Theme: Resilience and Growth in a Changing World

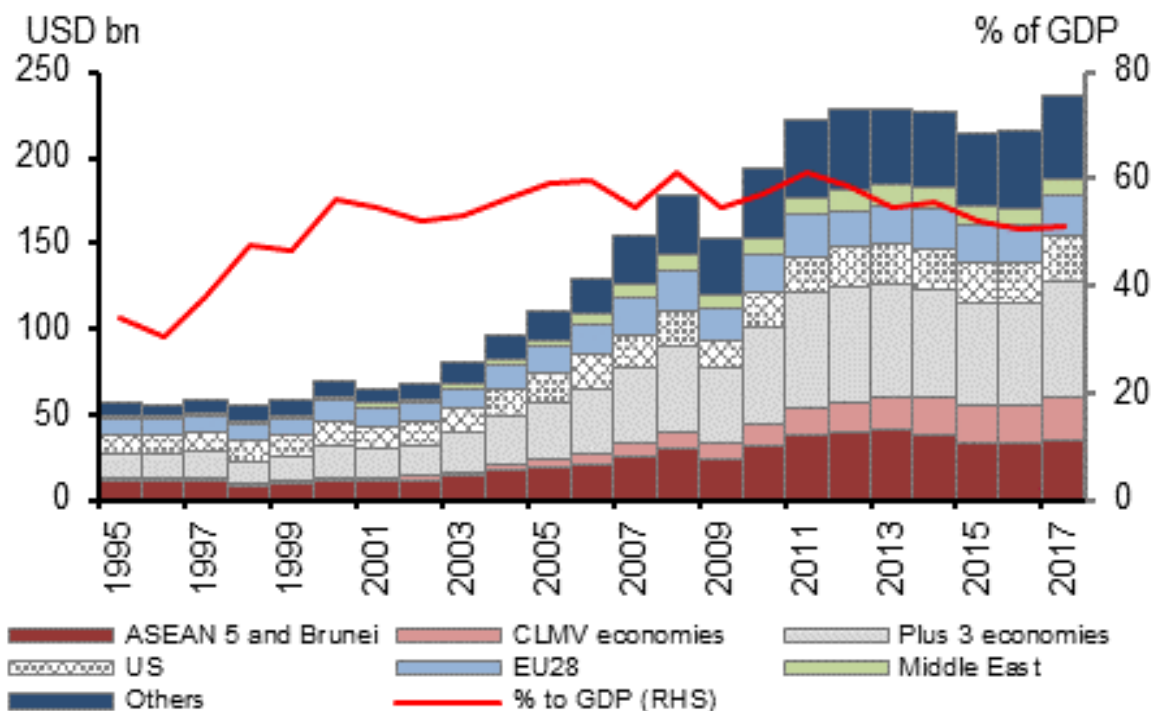
# “Manufacturing for Exports” Strategy – Driving Growth Convergence



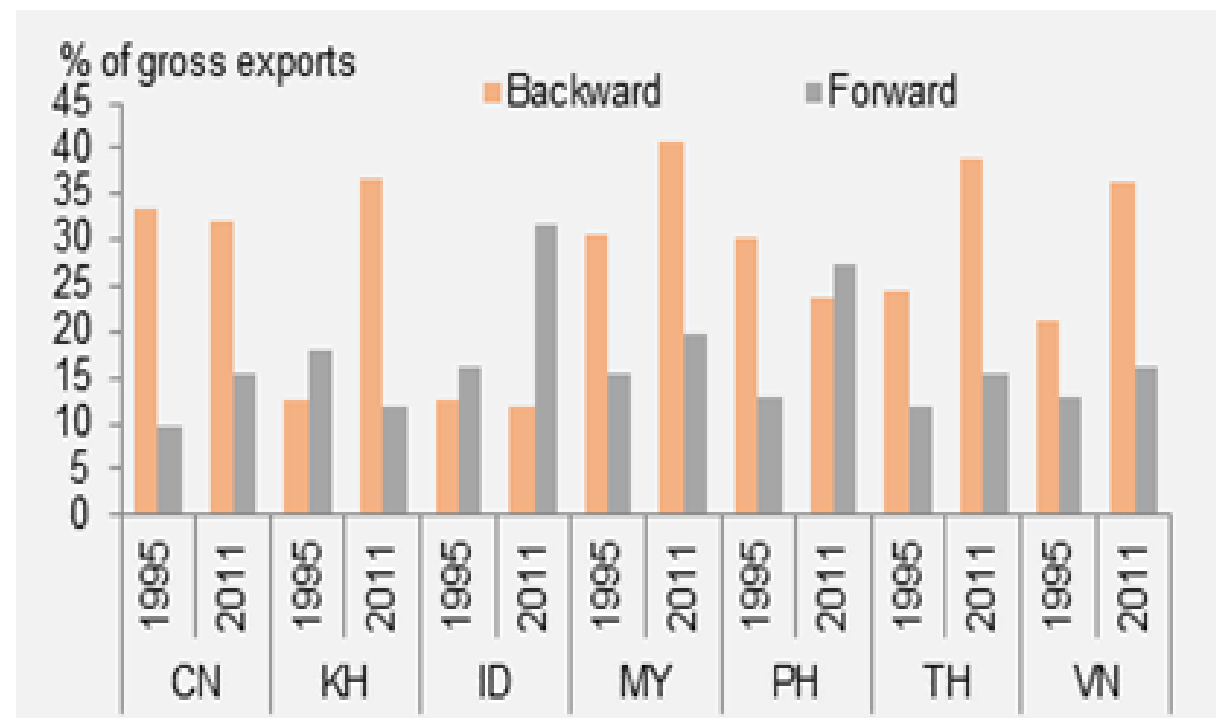
# Thailand's Engagement in Global Value Chains

- Thai exports have risen significantly and become more diversified, partly due to its participation in MNCs' production networks.
- Thailand records some of the highest levels of global value chain (GVC) integration, in particular in terms of backward linkage, among ASEAN economies.

Thailand's Exports



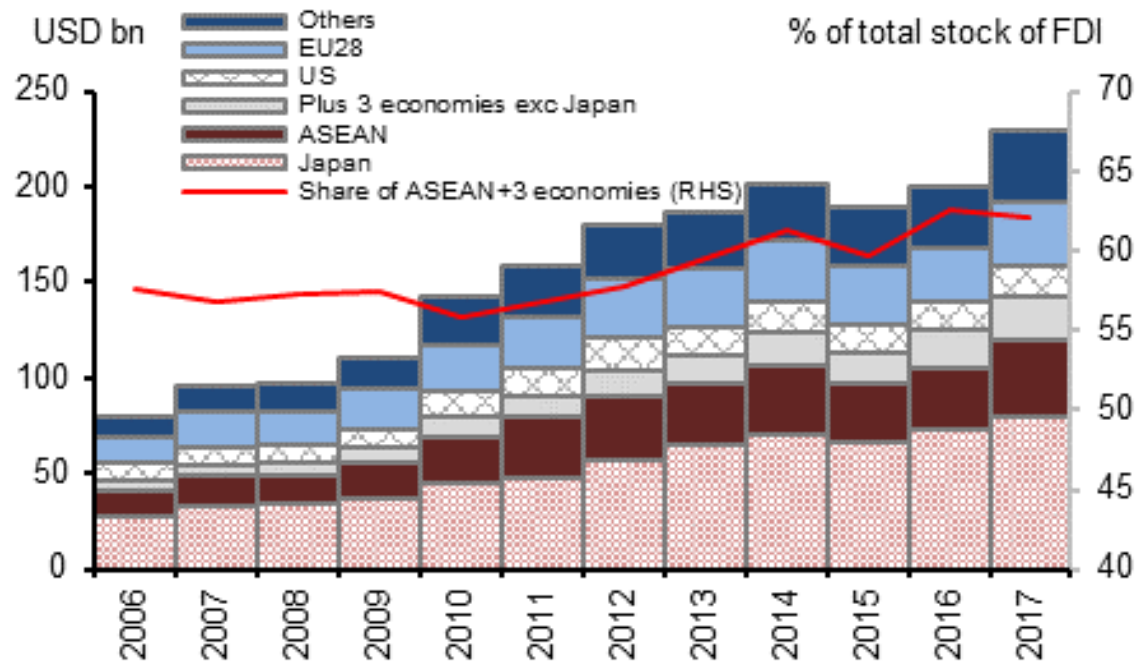
GVC participation: Thailand vs ASEAN



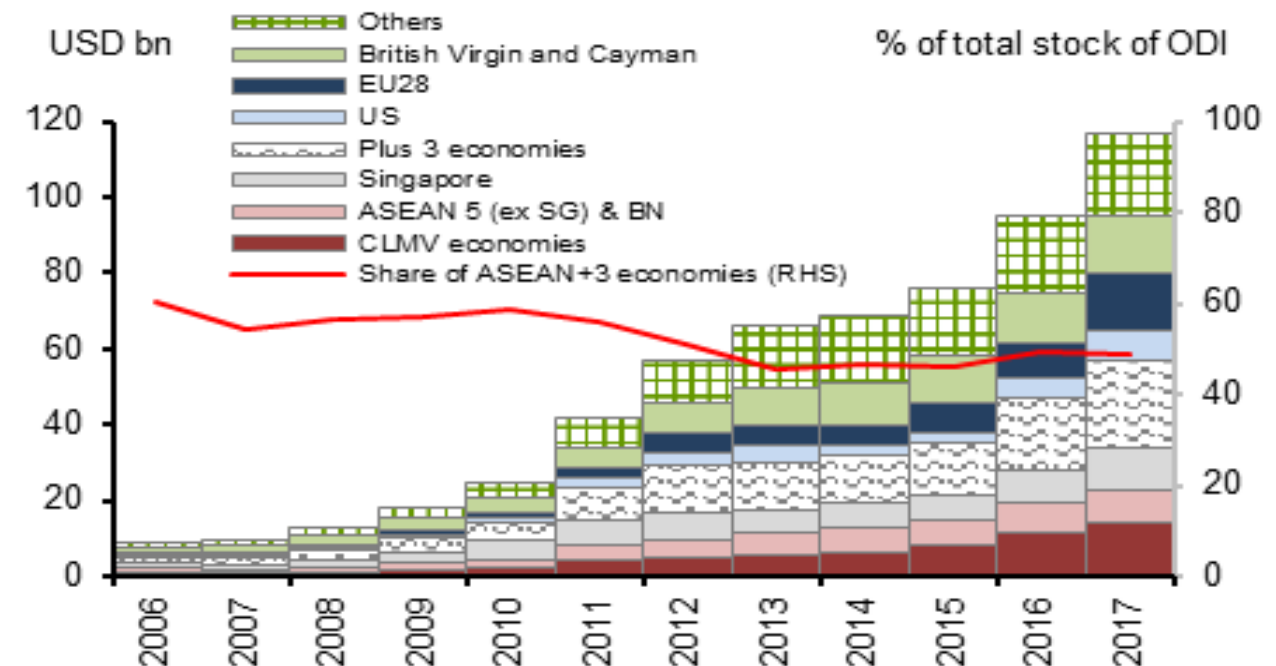
## Thailand's Engagement in Global Value Chains

- Japanese companies are the biggest FDI investors in Thailand, with an established industrial cluster. FDI from ASEAN+3 as a whole also rose significantly throughout the years.
- Thai companies' outward direct investments have also increased through the years. In particular, Thai investments in CLMV countries increased, given the relatively cheap labor, growing middle-income class, and higher growth rates in these countries.

Thailand's Inward FDI Stock



Thailand's Outward Direct Investments

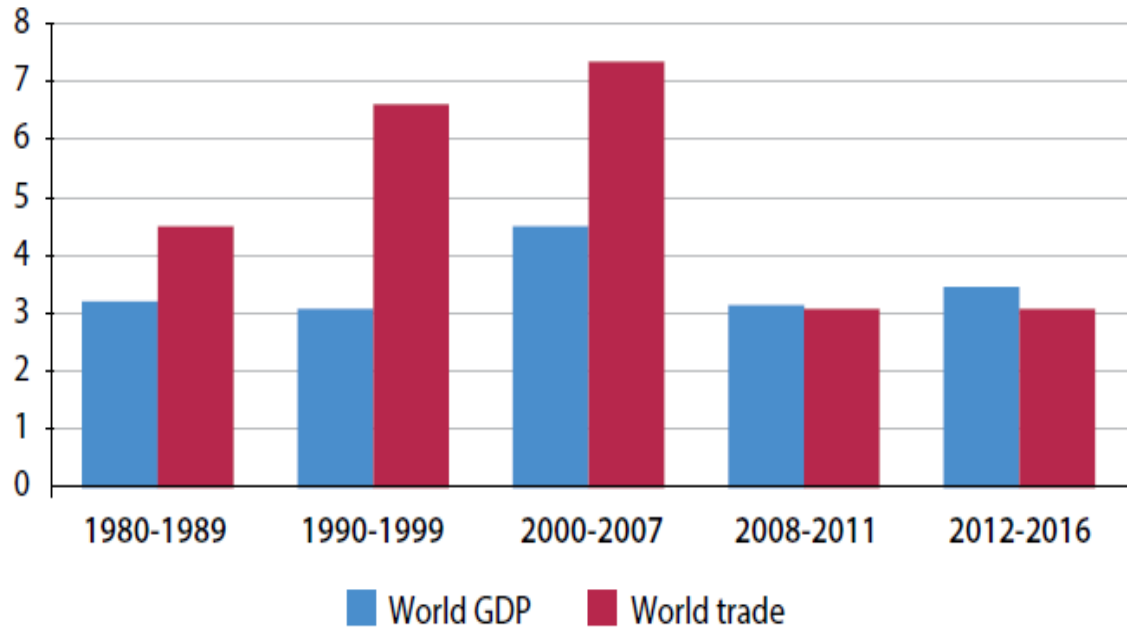


	Growth Driver	Challenges
<b>Global Value Chains (GVCs)</b>	<ul style="list-style-type: none"> <li>• <b>Integrated the region</b> and made region more competitive</li> <li>• <b>Eased entry into global trade</b> for developing ASEAN economies</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Growing less</b> as countries substitute imported inputs with their own production</li> <li>• <b>Amplified transmission of shocks</b> through supply chain across region</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>• <b>Enabler</b> for services sector</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Reduced demand for low-skilled labor</b> in manufacturing</li> </ul>
<b>Services</b>	<ul style="list-style-type: none"> <li>• Becoming <b>tradable</b></li> <li>• <b>Matching</b> supply with latent demand</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Productivity, wages and job quality still lagging</b> compared to manufacturing</li> </ul>

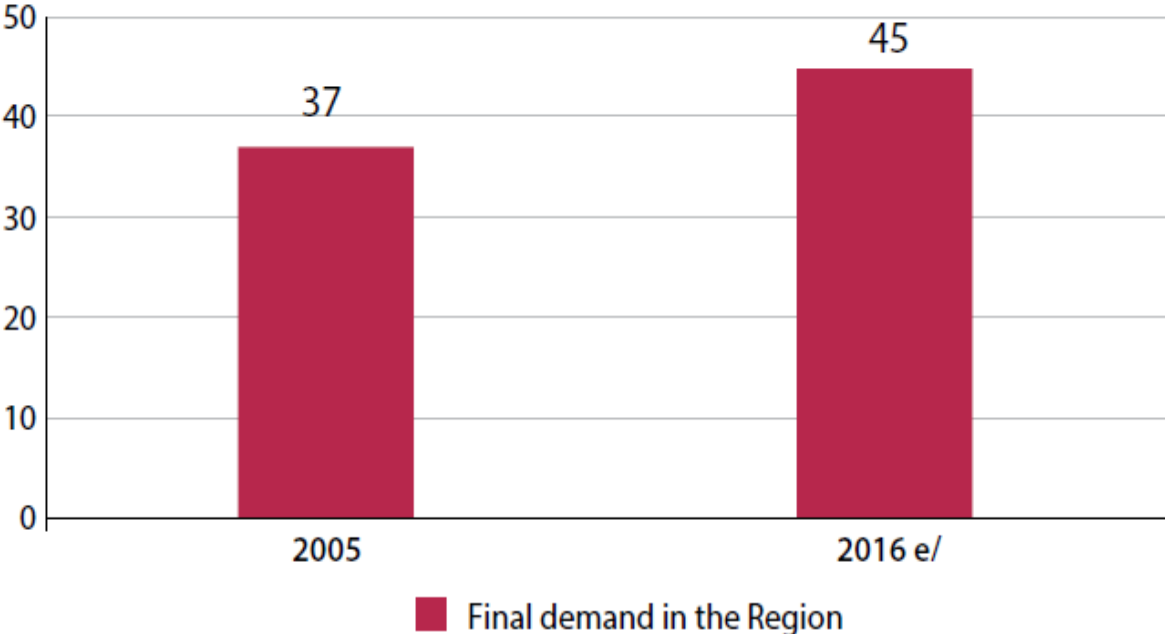


**Even as global trade growth slowed, intra-regional trade continues to grow.**

Average growth, % yoy



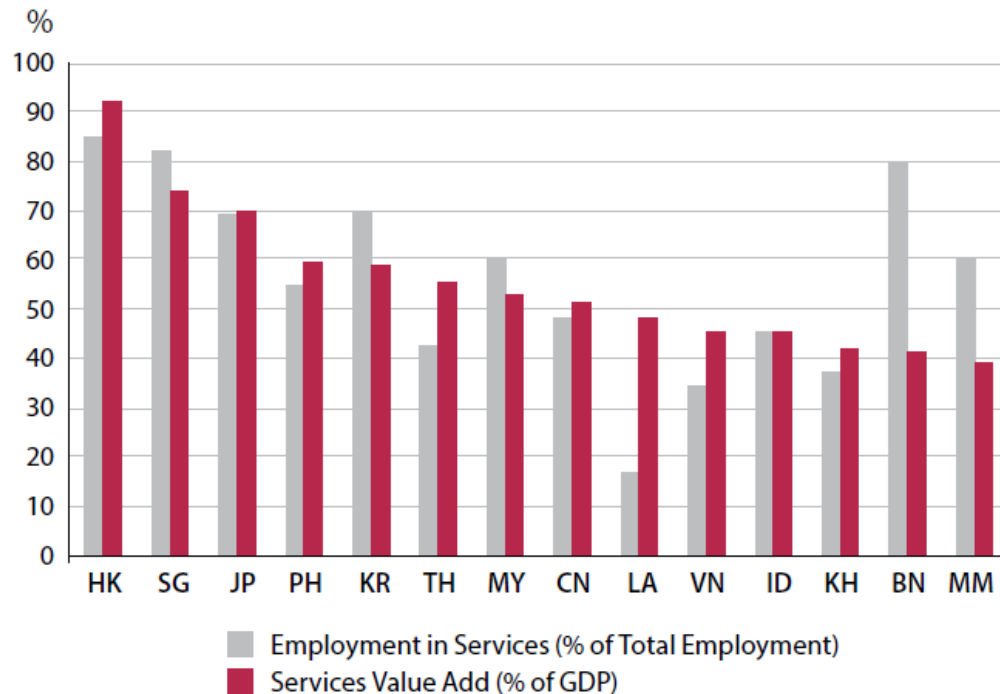
% Share of Total Regional Exports (in Value-Added Terms)



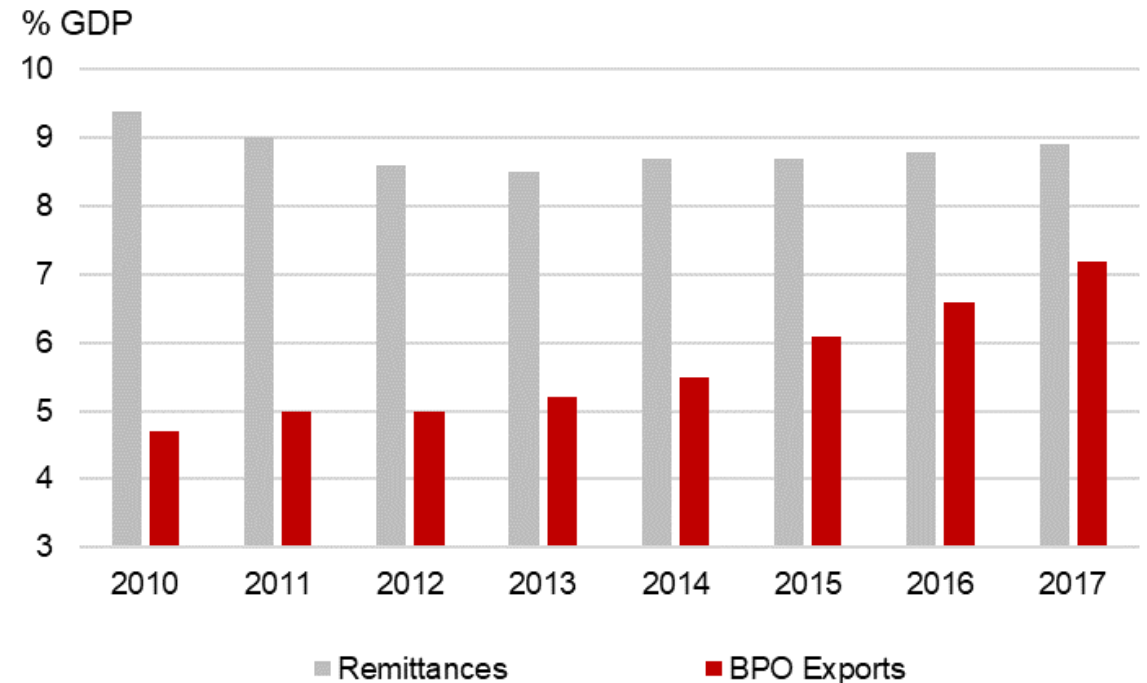
## Services Sector: Emerging Growth Driver

The services sector now accounts for more than half of both GDP and employment in many ASEAN+3 economies, and large shares of value-added content of exports.

Services accounts for more than half of GDP and employment in many regional economies...



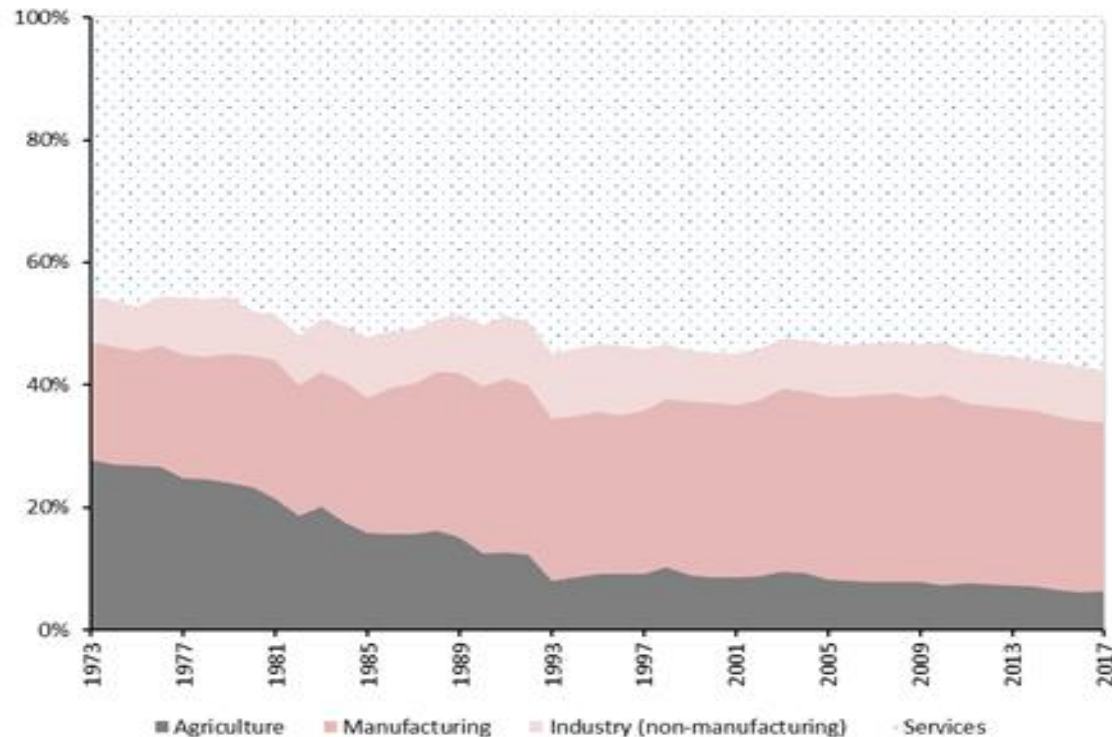
... and BPO sector in the Philippines is a success story, with growing export receipts catching up to remittances in importance



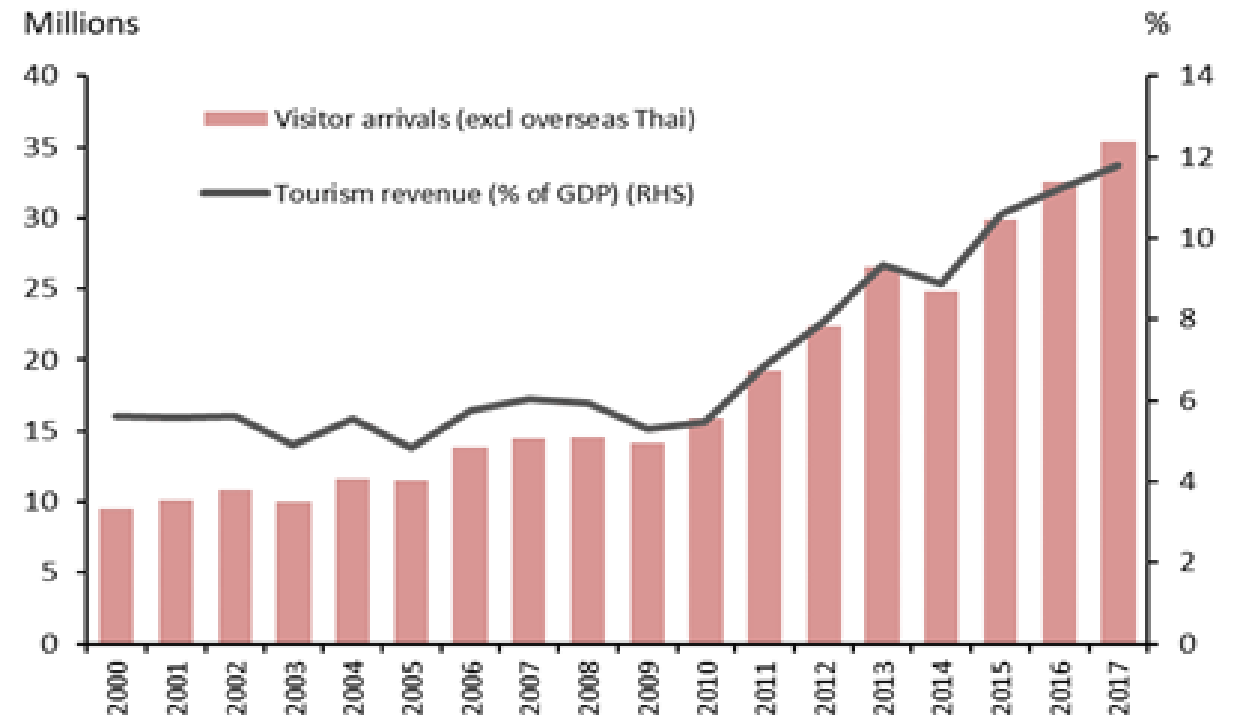
## Services Sector Growth in Thailand

In Thailand, the share of services in GDP have increased, while that of agriculture has decreased. Tourism revenue in particular has risen significantly, driven by increased tourist arrivals, including from China.

Services accounted for over 55 percent of GDP value added...



...as tourist arrivals and tourism receipts increased significantly.



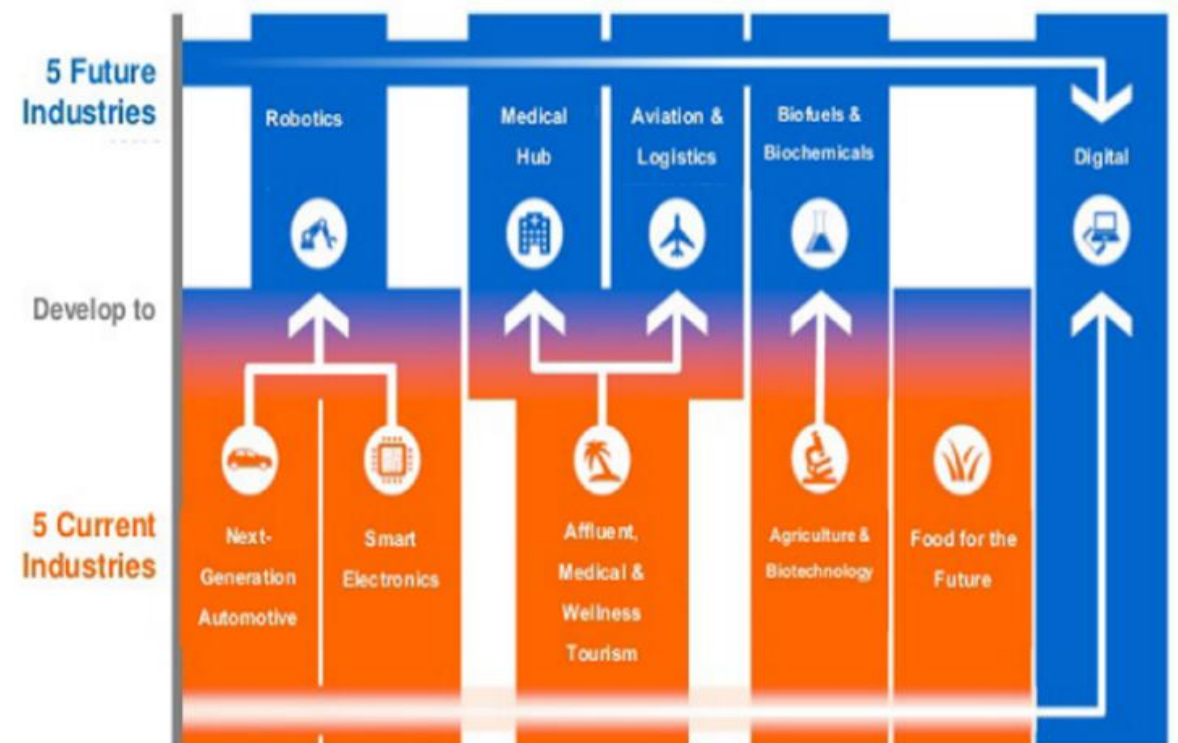
## EEC and Thailand 4.0

Thailand aims to develop new growth engines with high technology, innovation, and a knowledgeable society by developing the Eastern Economic Corridor (EEC) and adopting the Thailand 4.0 initiative.

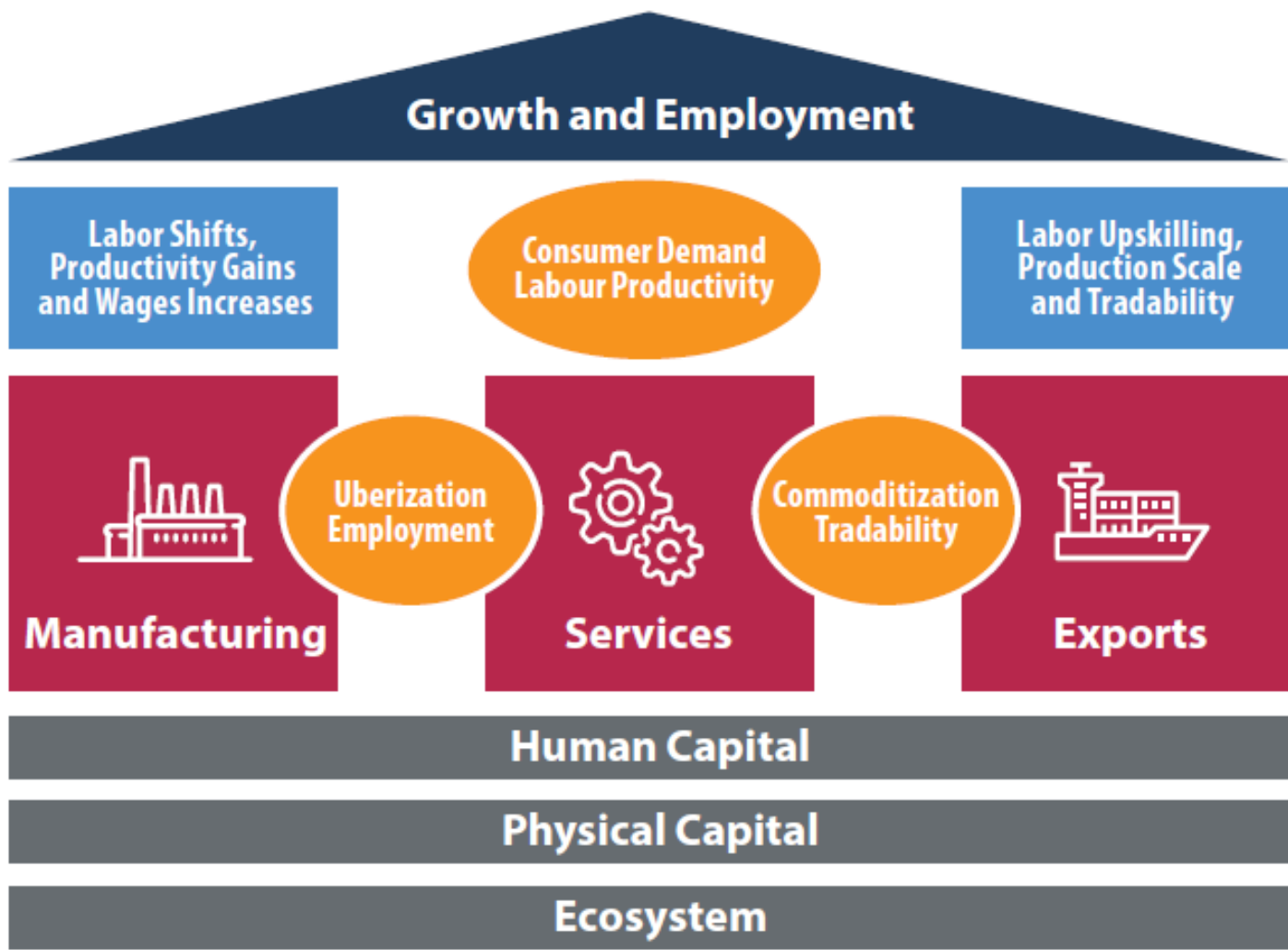
Alongside investment incentives, air, land and sea transportation infrastructure will be developed in the EEC ...



...while 5 existing S curve will be enhanced, and 5 new S curve industries will be developed.



# An Augmented “Manufacturing for Exports” Strategy?



## Our region's strength: Ample buffers and resources for use in investing in region's productive capacity and to deepen integration

<b>Trade</b>	<ul style="list-style-type: none"><li>• Maximise benefits from <b>GVC integration</b> through <b>trade facilitation, special economic zones</b></li><li>• Lower costs of trade through <b>infrastructure investment</b> to increase connectivity</li><li>• Export to meet <b>growing intra-regional demand</b> (e.g. tourism)</li></ul>
<b>Services</b>	<ul style="list-style-type: none"><li>• <b>Grow services sector</b> as additional growth engine to manufacturing</li><li>• Raise <b>productivity</b> of services sector through <b>technology</b> and <b>liberalisation</b>, creating skilled jobs in services sector</li></ul>
<b>Labor policies</b>	<ul style="list-style-type: none"><li>• <b>Upskilling labor force</b>, while managing social impact on unskilled labor.</li></ul>

# Thank You

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