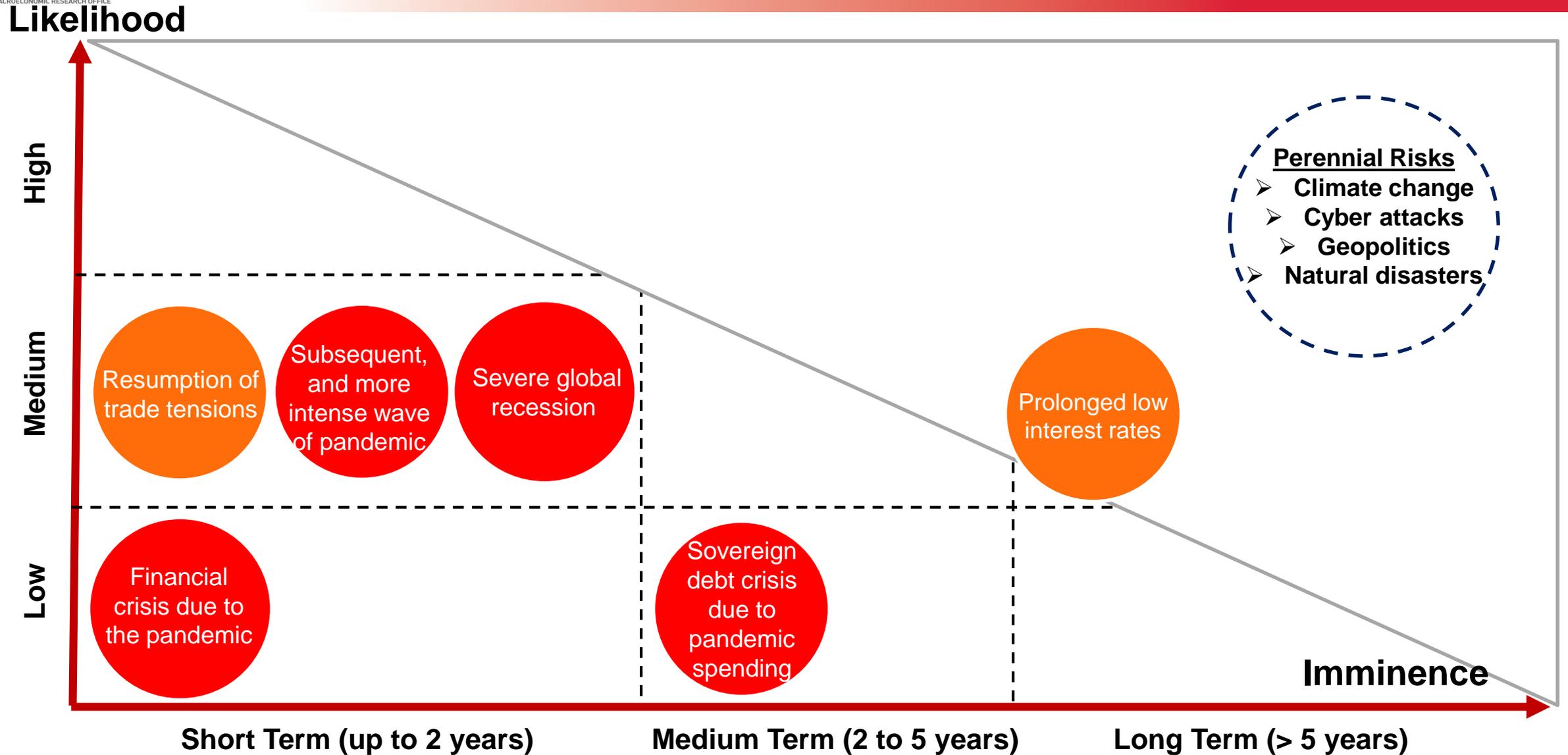


The ASEAN+3 Region in Global Value Networks

ISEAS-AMRO Joint Webinar
June 25, 2020

- 1 | Macroeconomic Prospects & Challenges**
- 2 | Theme: ASEAN+3 in the Global Value Networks**

The COVID-19 pandemic turned previous tail risks into the baseline, with new (and potentially even more devastating) risks coming to the fore



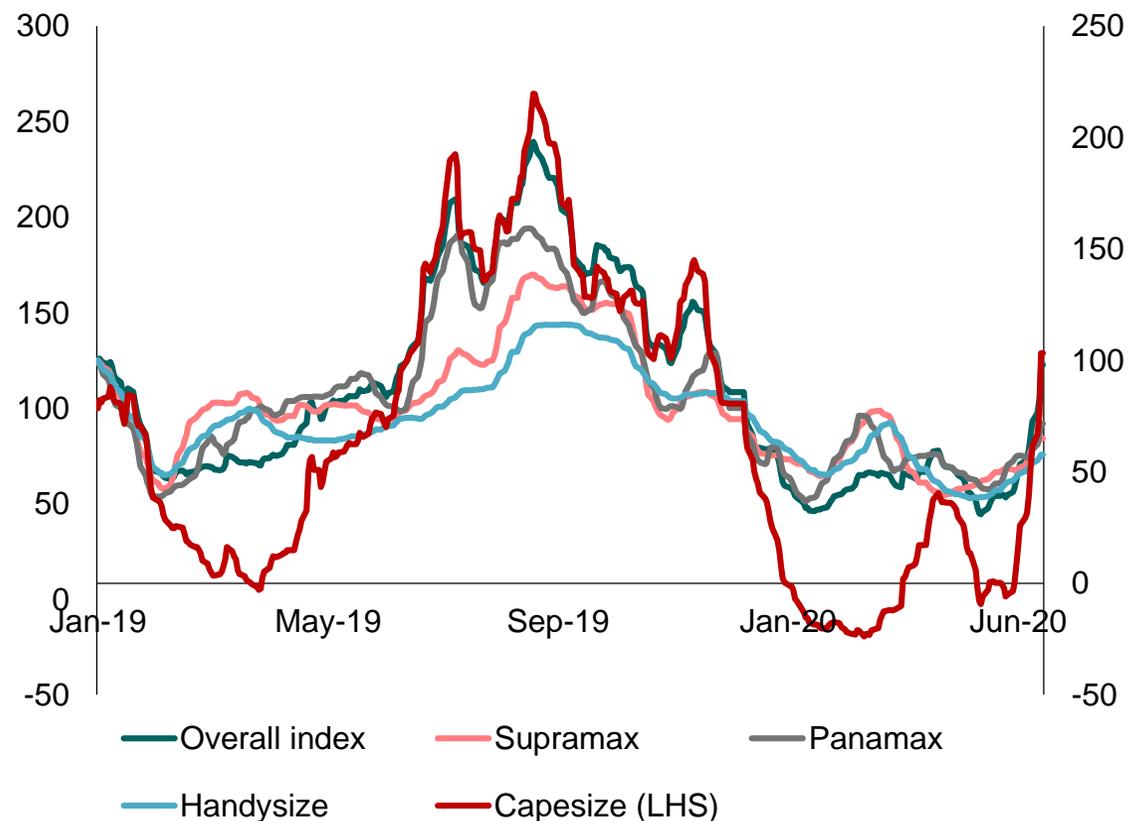
Legend: ● Low impact ● Medium impact ● High impact

There were early signs that the ASEAN+3 region's manufacturing sector and exports were turning the corner until the pandemic hit ...

ASEAN+3: Purchasing Managers' Index (PMI) for Manufacturing

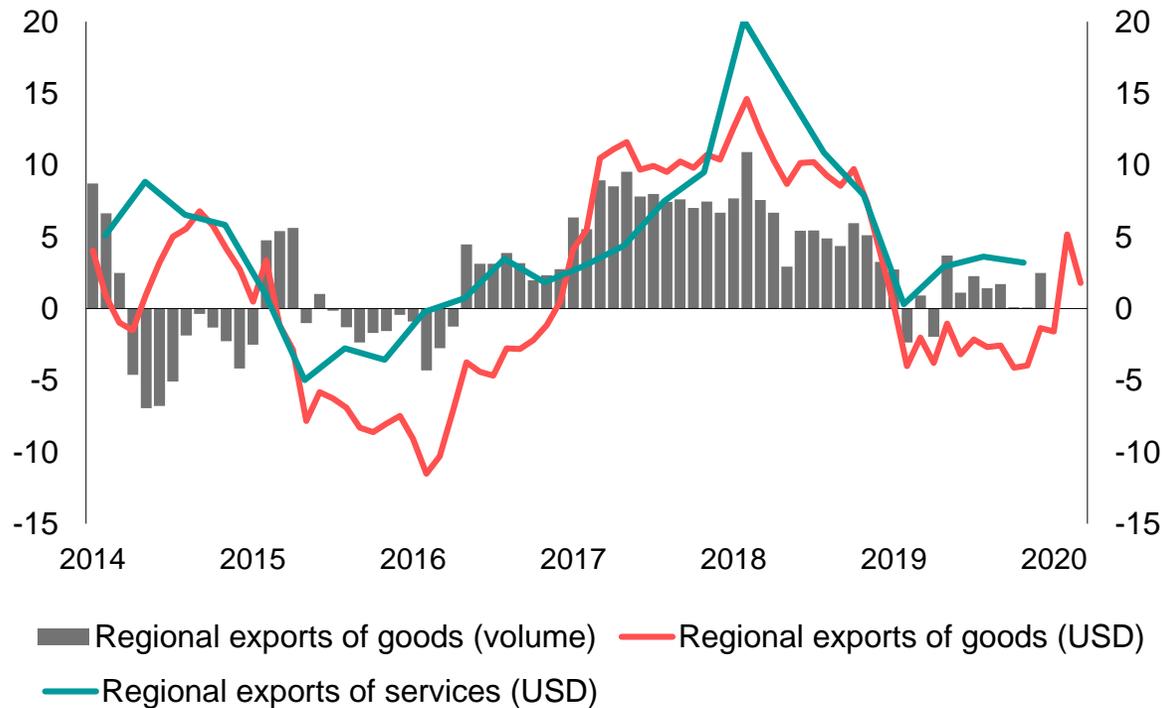
Economy	2018	2019	2020	Change from Prev Month
	Jan to Dec	Jan to Dec	Jan to May	
PLUS-3				↓ -0.3
China				↑ 1.4
Hong Kong*				↑ 7.0
Japan				↓ -3.5
Korea				↓ -0.4
ASEAN				↑ 4.8
Indonesia				↑ 1.1
Malaysia				↑ 14.3
Philippines				↑ 8.5
Singapore*				↓ -1.0
Thailand				↑ 4.9
Myanmar				↑ 10.0
Vietnam				↑ 10.0

Baltic Dry Index: Headline and Sub-indices (January 1, 2019 = 100)



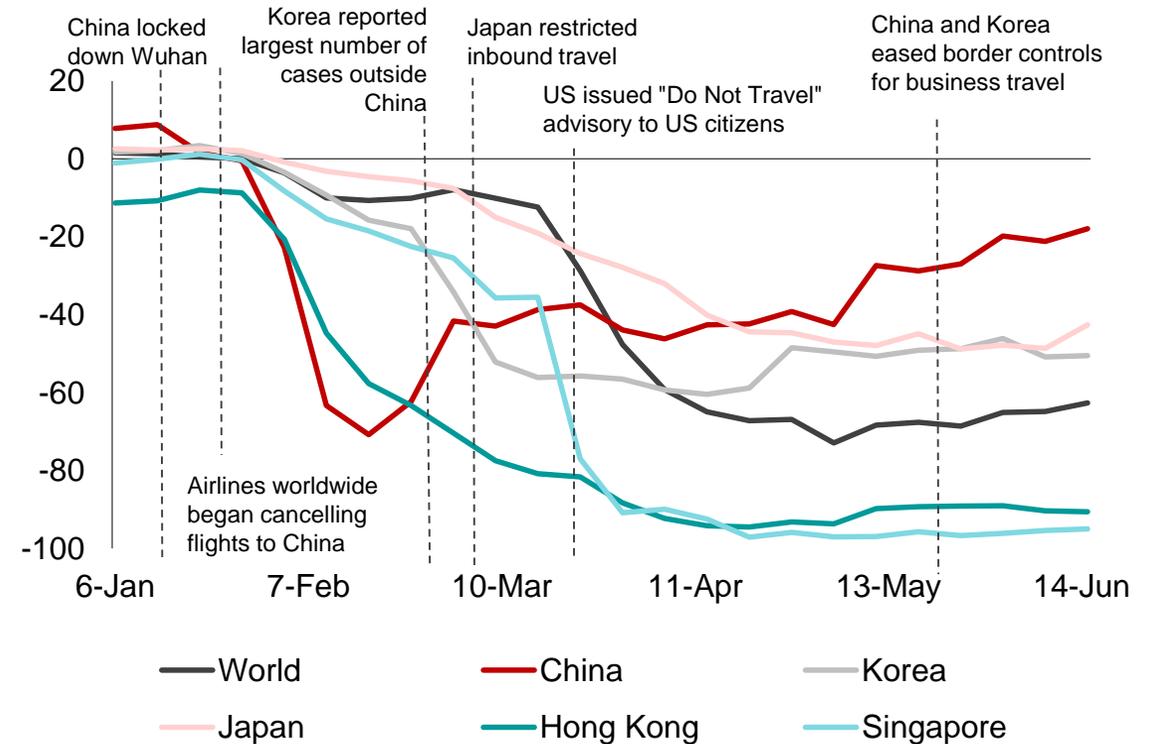
... while the strong demand for tourism which was helping to carry the external sector during the US-China trade conflict became decimated

ASEAN+3: Goods and Services Exports
(Percent year-over-year; 3-month moving average)



Sources: National authorities; and AMRO staff calculations.

International Flight Departures, 2020
(As of the week of June 15; Percent year-on-year)

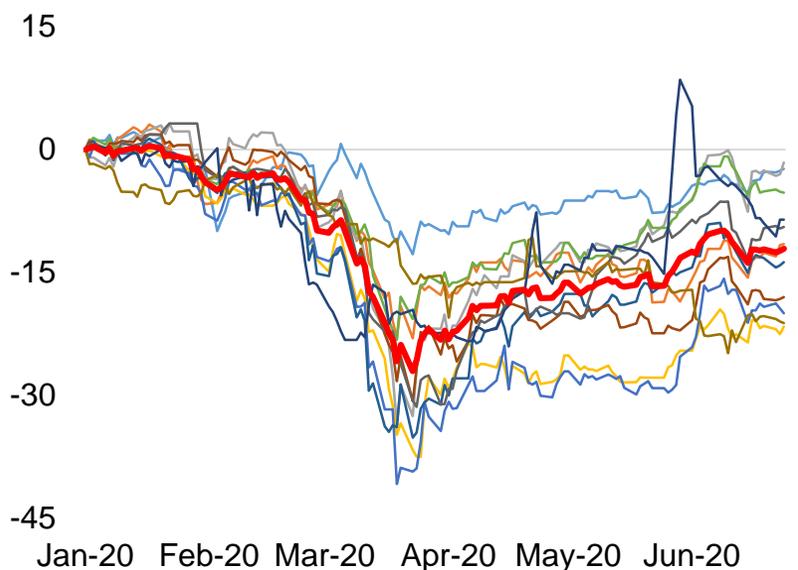


Sources: Official Aviation Guide; and AMRO staff calculations.

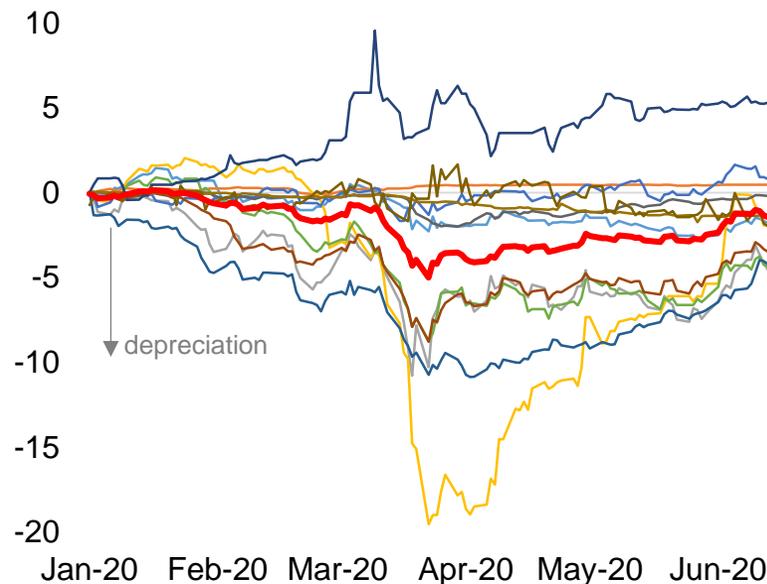
At the moment, some recovery in financial markets suggests that the region is slowly regaining investor confidence, but volatility remains elevated

ASEAN+3: Performance of Equity, Exchange Rate and Government Bond Markets, as of June 24, 2020

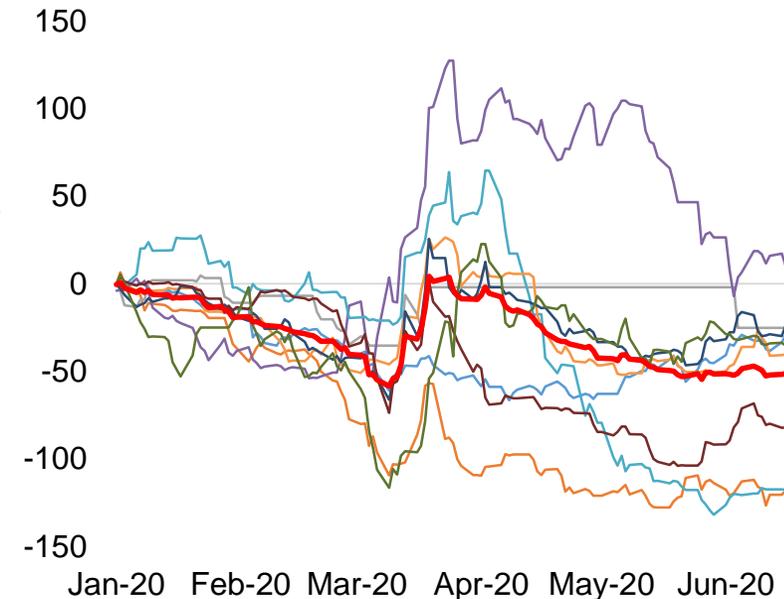
Equity index



Currency (against USD)



10-year yield (basis points)



— CN (-2.4) — HK (-11.6) — KR (-1.6)
 — ID (-21.6) — PH (-20) — MY (-5.3)
 — TH (-13.8) — SG (-18) — VN (-9.5)
 — LA (-21.2) — KH (-8.5) — Equity (average)

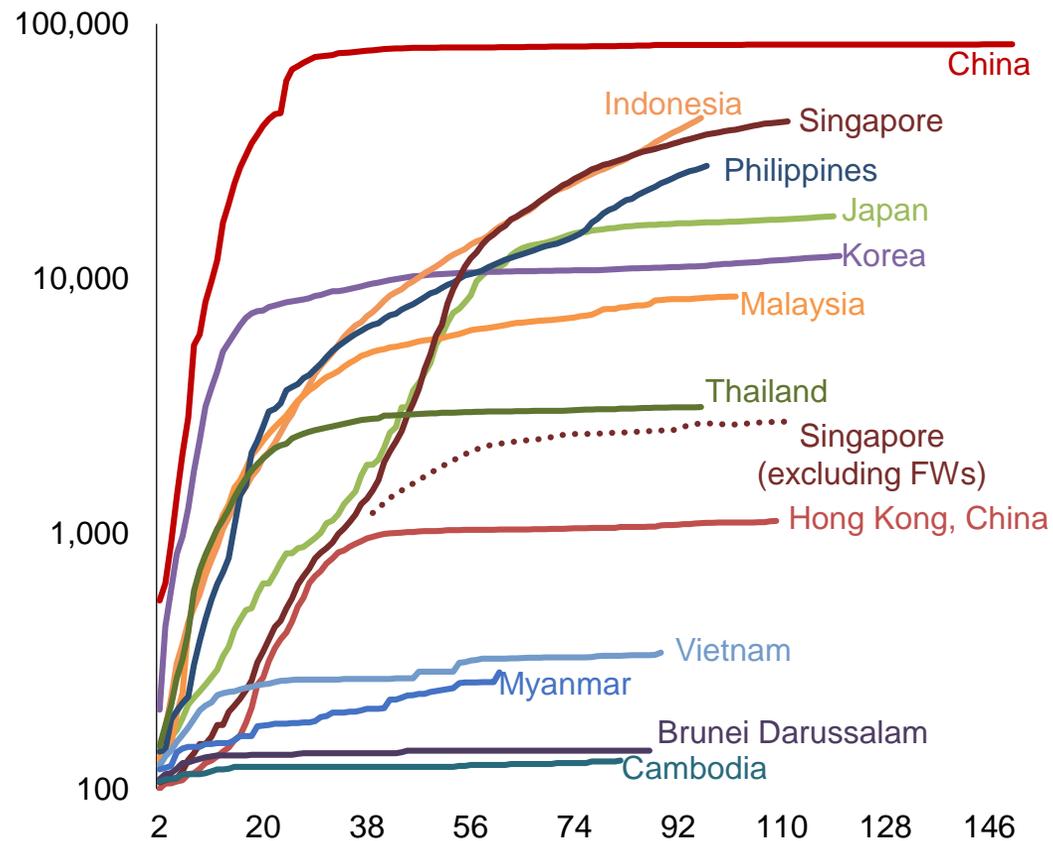
— CN (-1.6) — HK (0.5) — KR (-4.1)
 — ID (-2) — PH (1.1) — MY (-4.5)
 — TH (-3.8) — SG (-3.1) — VN (-0.1)
 — LA (-1.6) — MM (5.9) — KH (0.2)
 — FX (average)

— CN (-25.9bp) — HK (-122.9bp)
 — KR (-25.2bp) — ID (7.8bp)
 — PH (-107.4bp) — MY (-42.8bp)
 — TH (-26.8bp) — SG (-80.1bp)
 — VN (-35.6bp) — Bond yields (average)

With countries at different stages of the Covid Cycle, safe exit from containment measures will likely become the biggest challenge for policymakers ...

ASEAN+3: Confirmed COVID-19 Cases

(Days after 100th confirmed case; log scale, as of June 18)



Selected Economies: COVID Cycle Positions

(As of June 18, 2020)

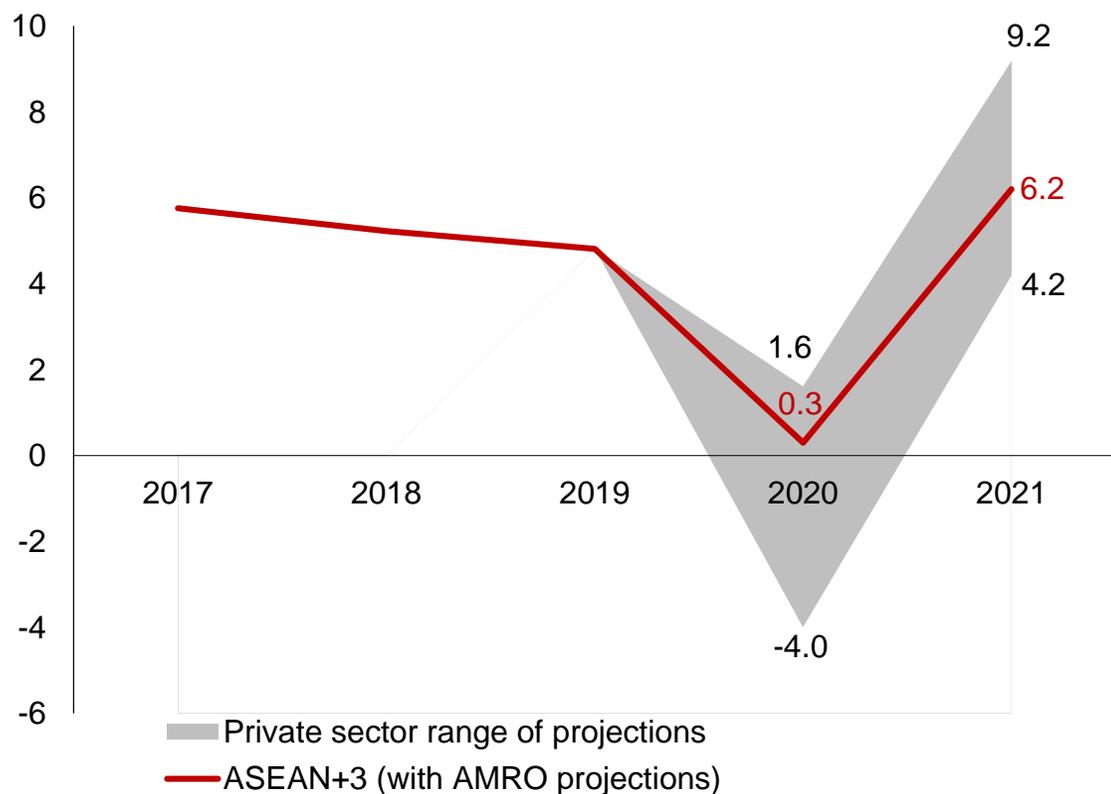


Sources: Haver Analytics, sourced from John Hopkins University; AMRO staff calculations.
 Note: FW = foreign workers in Singapore dormitories.

Sources: Haver Analytics, sourced from John Hopkins University; and AMRO staff calculations.
 Note: Based on Hinojales, Marthe, Anne Oeking, and Li Lian Ong. 2020. ["Where are We in the Covid Cycle?"](#) AMRO Analytical Note, Singapore, April 27.

... but the projected regional rebound in 2021 is by no means assured if there is a second wave of the pandemic, requiring further shutdowns and support measures

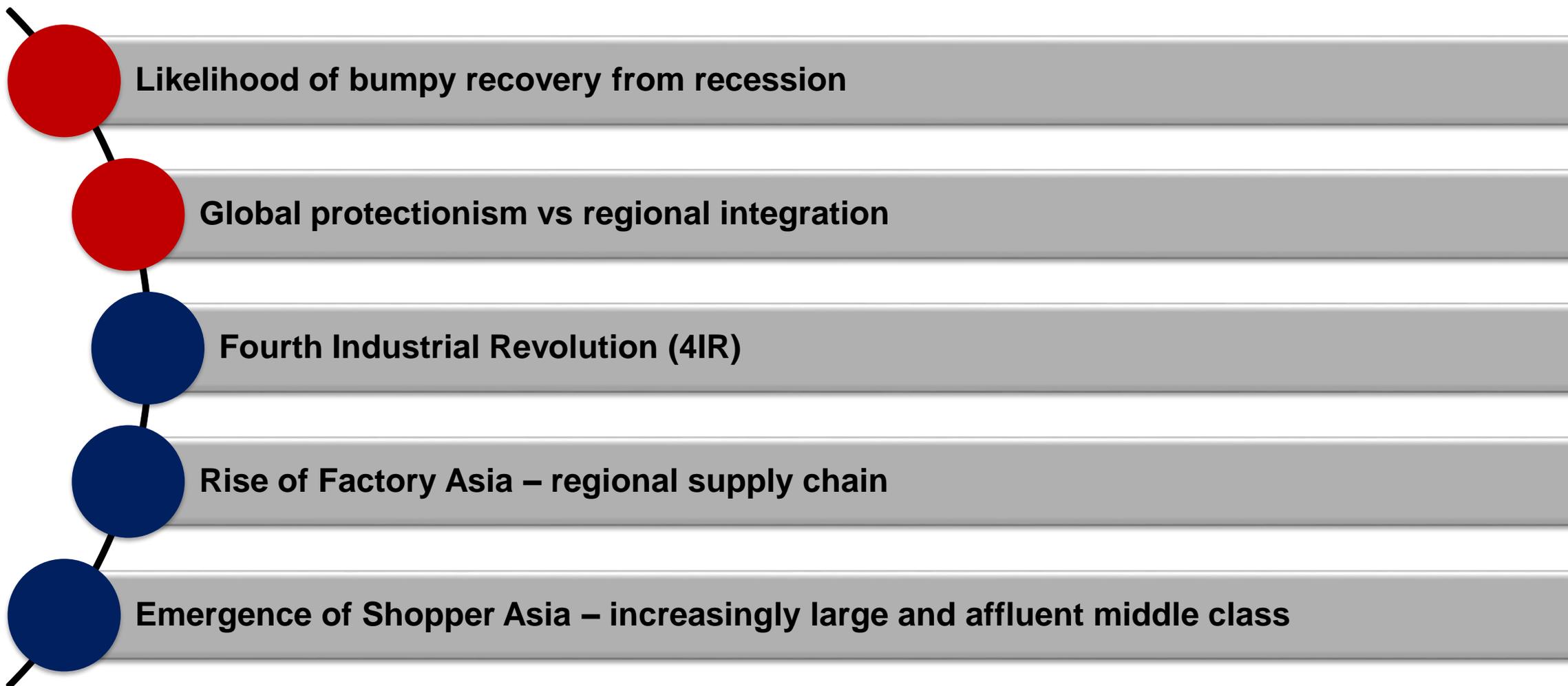
AMRO Growth Estimates and Projections, 2019–2021 (Percent)



AMRO Growth Projections (Percent; as of June 2, 2020)

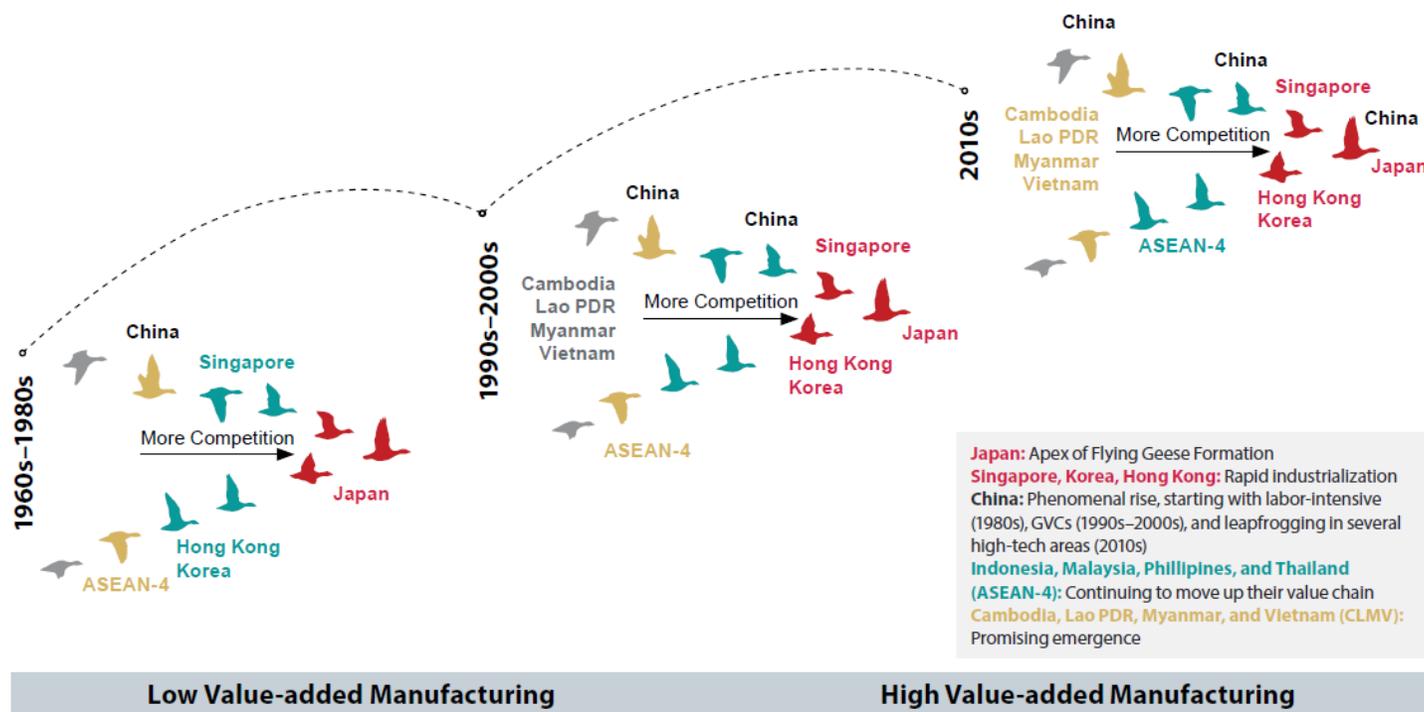
Economy	2020	2021
ASEAN+3	0.3	6.2
Plus-Three	0.7	6.3
China	2.3	7.0
Hong Kong	-5.5	3.5
Japan	-5.7	4.5
Korea	-1.0	3.4
ASEAN	-1.2	5.8
Brunei	2.2	2.9
Cambodia	-1.8	6.6
Indonesia	0.9	5.3
Lao PDR	1.1	5.4
Malaysia	-3.2	7.0
Myanmar	2.5	6.9
Philippines	-2.5	7.4
Singapore	-8.0	5.5
Thailand	-6.0	4.0
Vietnam	3.2	7.0

- 1 | Macroeconomic Prospects & Challenges
- 2 | **Theme: ASEAN+3 in the Global Value Networks**



- Maximizing gains from comparative advantage: Heckscher-Ohlin (H-O)
- Developing new competitive advantage: Ricardian elements
- Development of the Regional Supply Chain

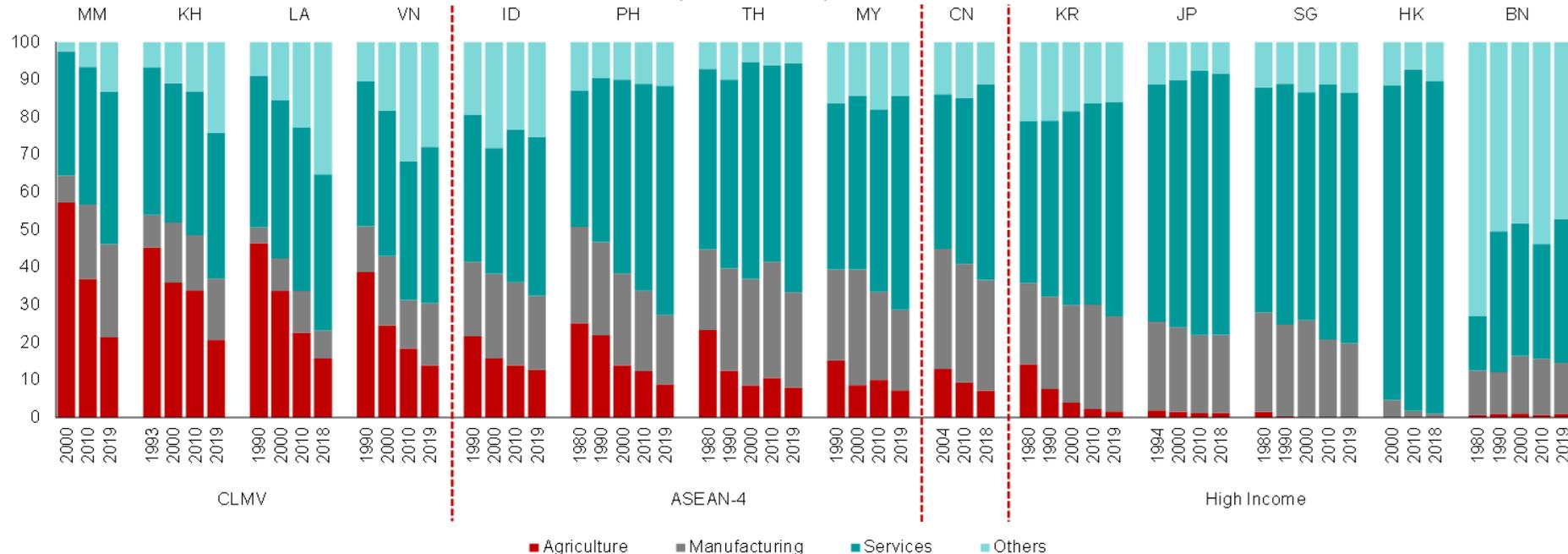
Evolving comparative advantage (H-O-R) flying geese model



Sectoral shifts have been significant, but do not spell the end of the manufacture-for-exports strategy for growth catch-up

- Advanced ASEAN+3 countries and then the upper-middle income ones gained much from the conventional manufacturing-for-exports growth model.
- Manufacturing's contribution to growth and jobs will peak earlier and lower.

ASEAN+3 Economies: Shares of GDP by Sector (Percent)

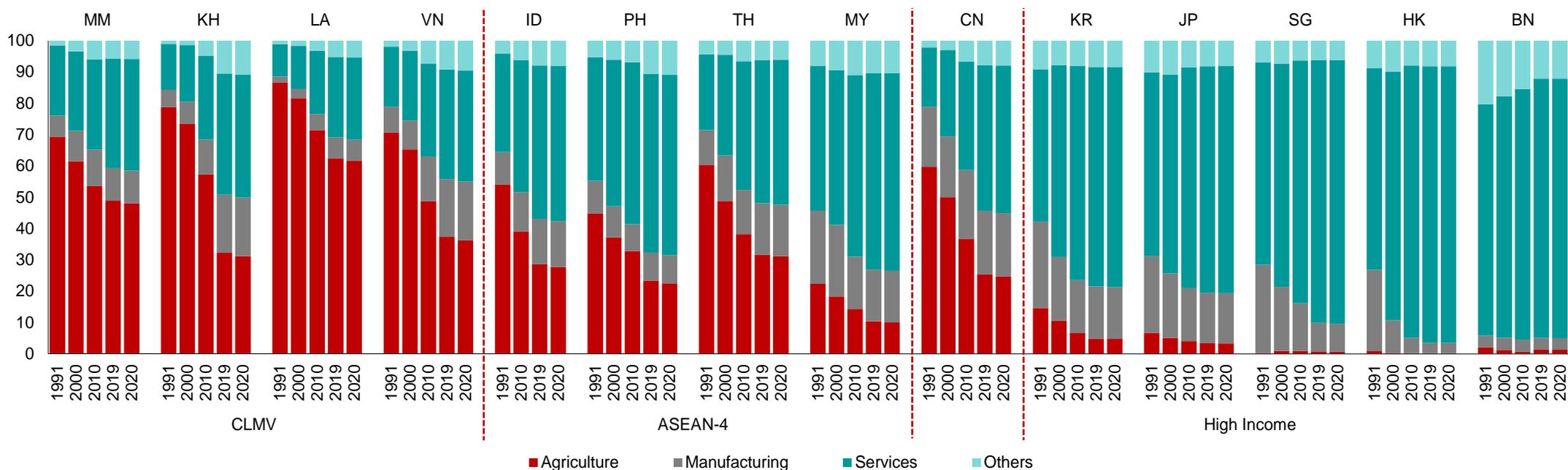


Sources: The World Bank; national authorities; and AMRO staff calculations.

A shift of labor from agriculture to manufacturing and services has been observed across economies in the region.

- High-income economies in the region have been deindustrializing and have moved into services.
- Similarly, in less developed economies, employment in agriculture has been shrinking as countries have undergone structural transformation.

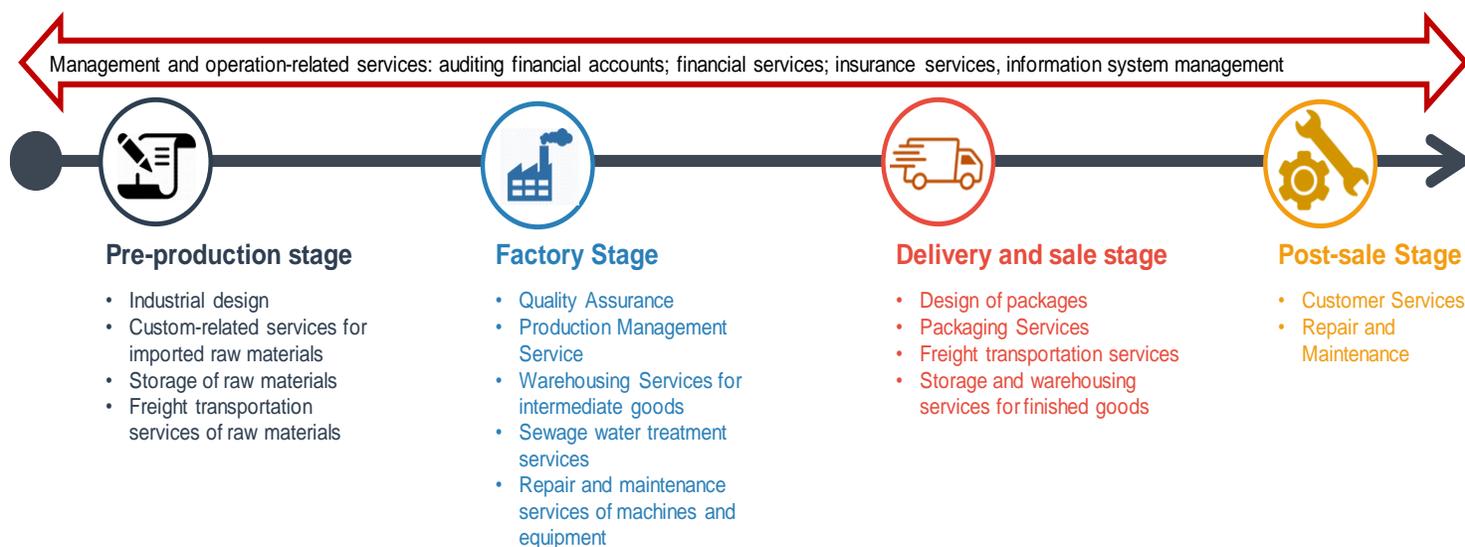
ASEAN+3 Economies: Shares of Employment by Sector (Percent of total employment)



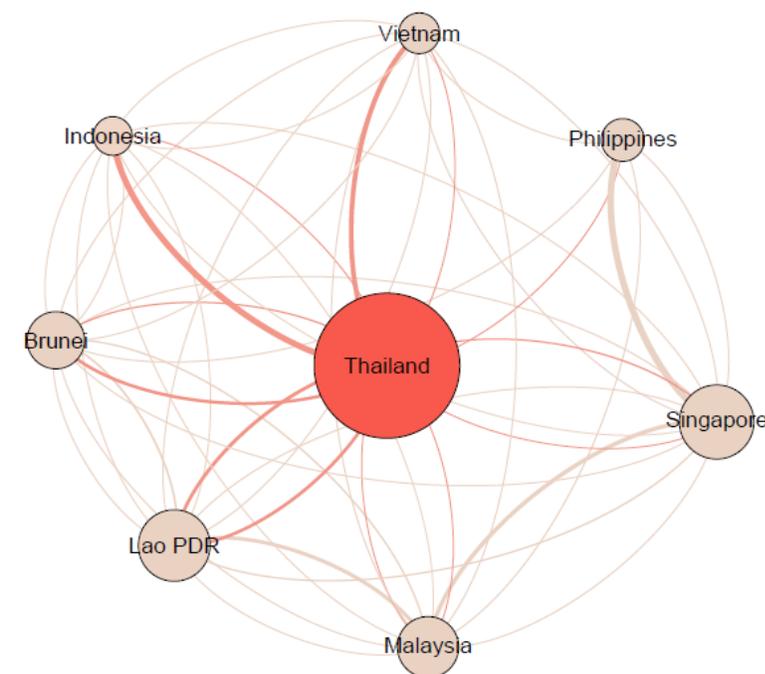
Services will become increasingly important in manufacturing: Thailand's automobile industry is a prime example

- Among case studies reflecting these trends, Thailand's automobile industry is one – involving increasing integration between manufacturing and services. Domestic VA of Thai automotive services exports in 2018 was nearly double that of other ASEAN countries combined.
- Its production network is most connected with that of Indonesia and Vietnam.

Services along the Automotive Value Chain

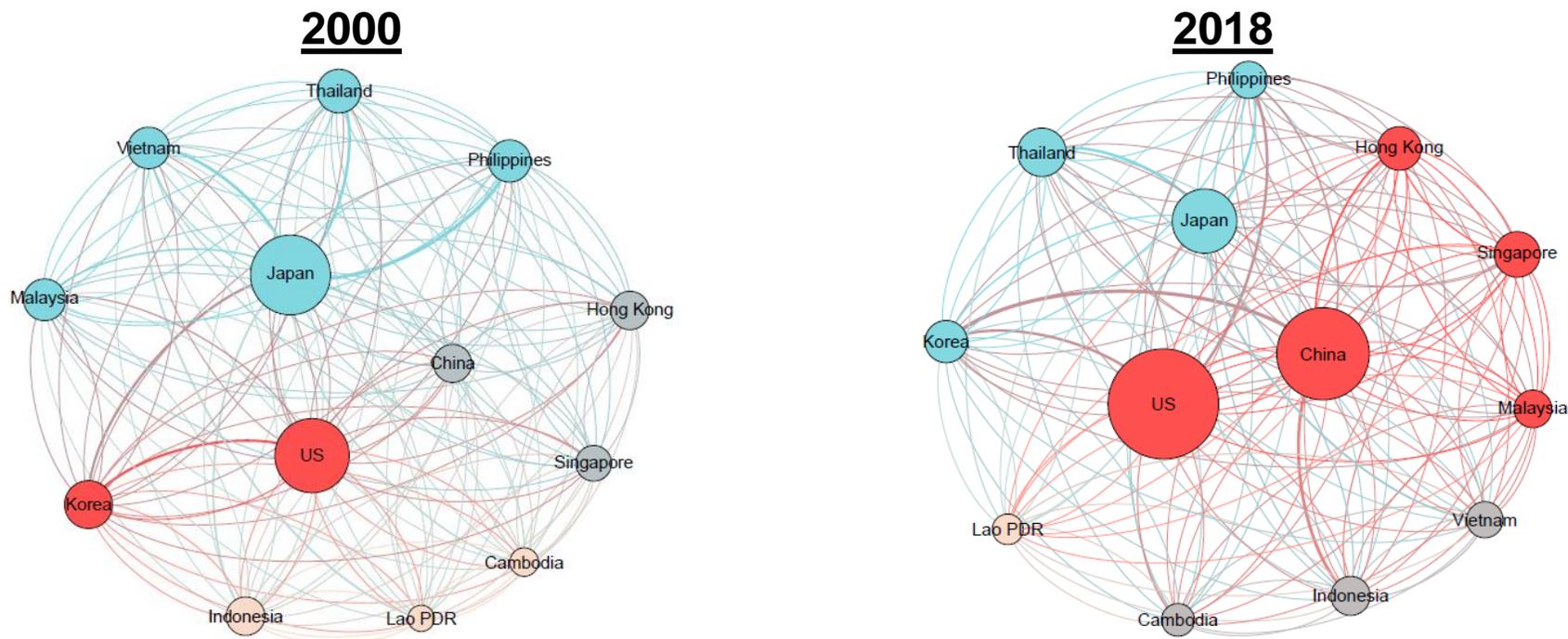


Thailand's Automobile Value Chain



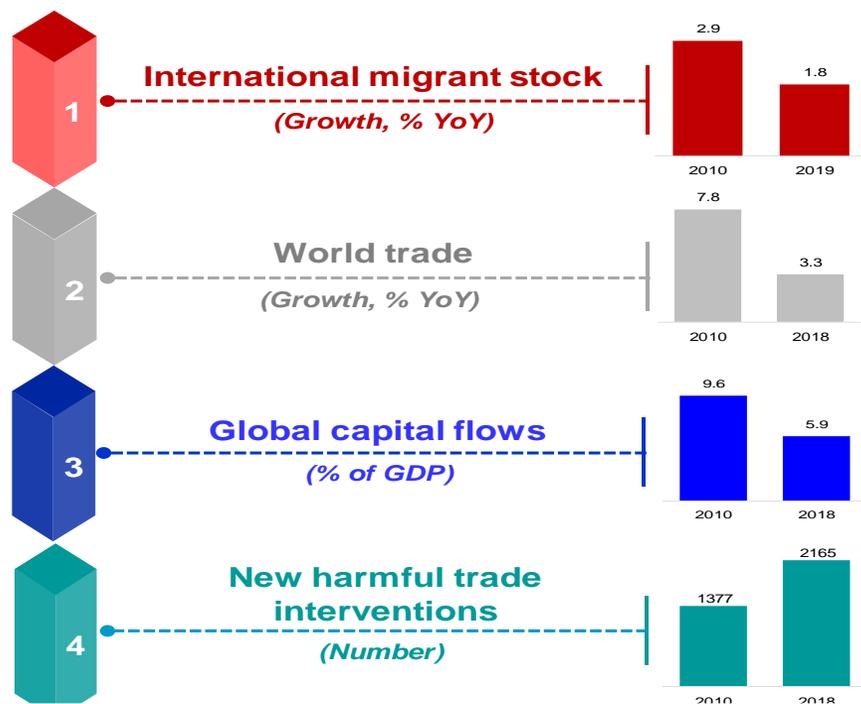
- **Factory Asia increasingly resembles a services hub, and is much more involved in value creation through R&D, product designs, and customizing service experiences.**
- **China becoming a key node in GVN for services is a prime example.**

China's integration into GVN for service exports

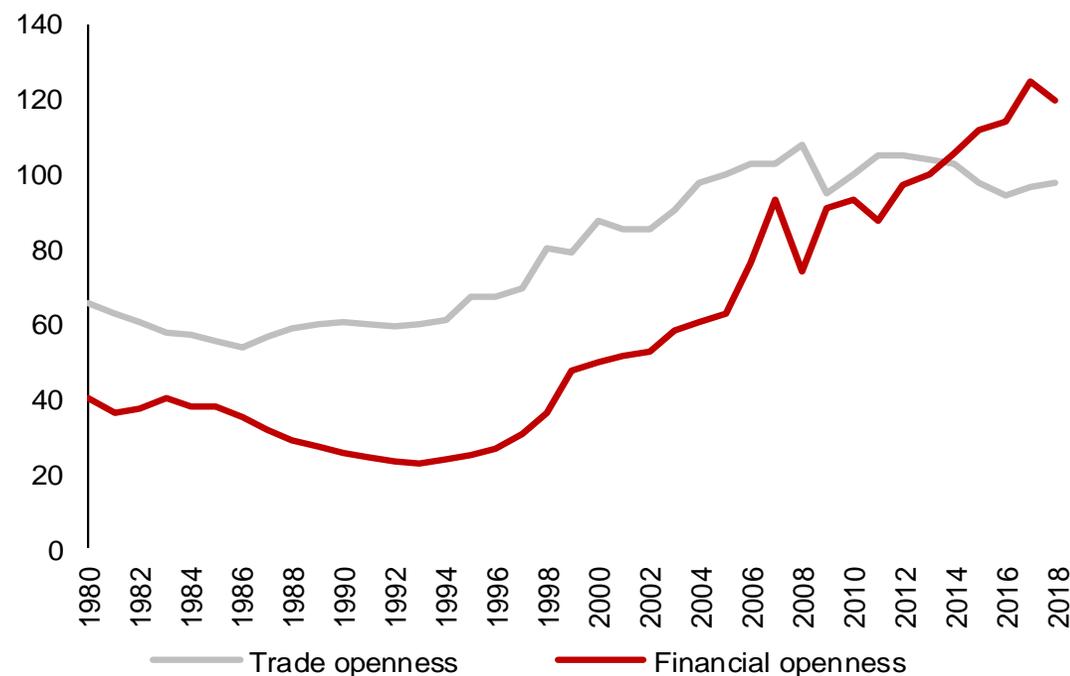


- As a large EM region, and the fastest-growing in the world, our region has a responsibility to be a key counterweight to the rise of protectionist tendencies in some parts of the world in recent times.
- Elements of protectionism need to be addressed, and those trends reversed.

Selected Indicators of Globalization



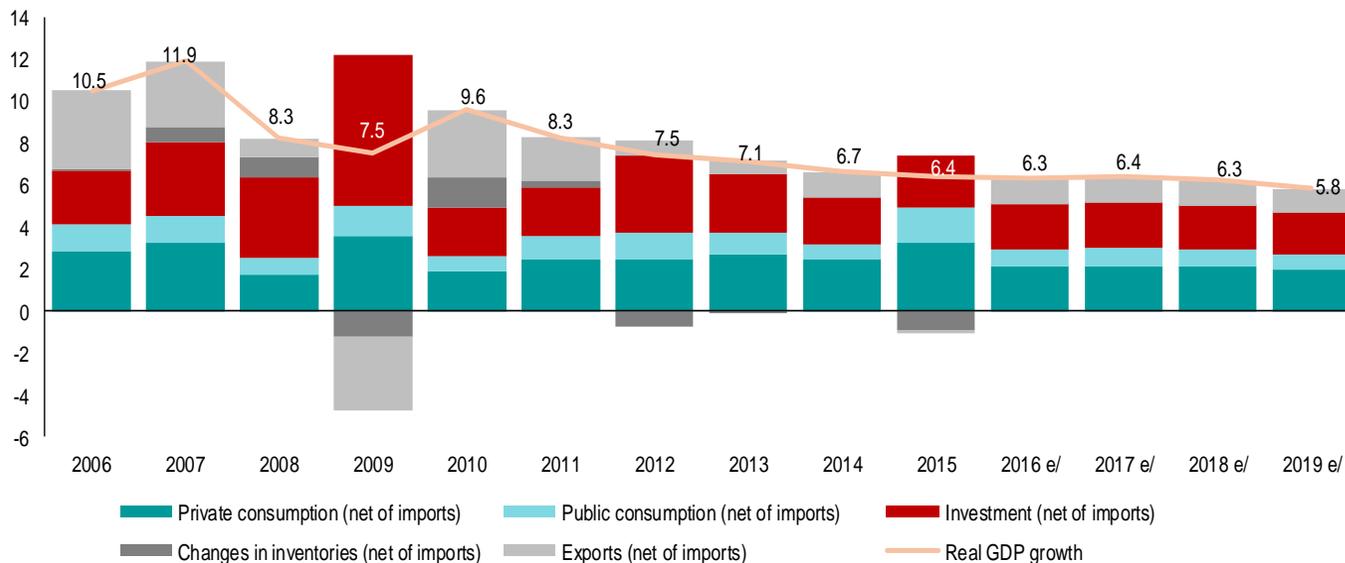
EMEs: Trade and Financial Openness



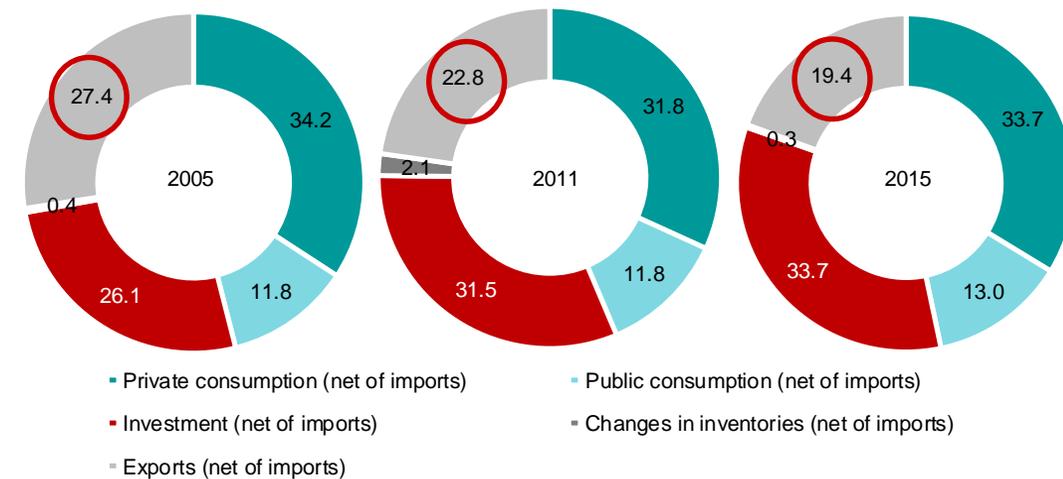
Growth rebalancing in the region has been most pronounced among a sub-group: ASEAN-4, China, and Vietnam

- At the aggregate level, domestic demand has become a much stronger driver of growth, especially in ASEAN-4, China, and Vietnam.
- Global Financial Crisis and European Sovereign Debt Crisis led to a collapse in external demand and major growth rebalancing towards domestic demand.

ASEAN-4, China, Vietnam: Contribution to GDP Growth, Import-Adjusted Method (Percentage point)



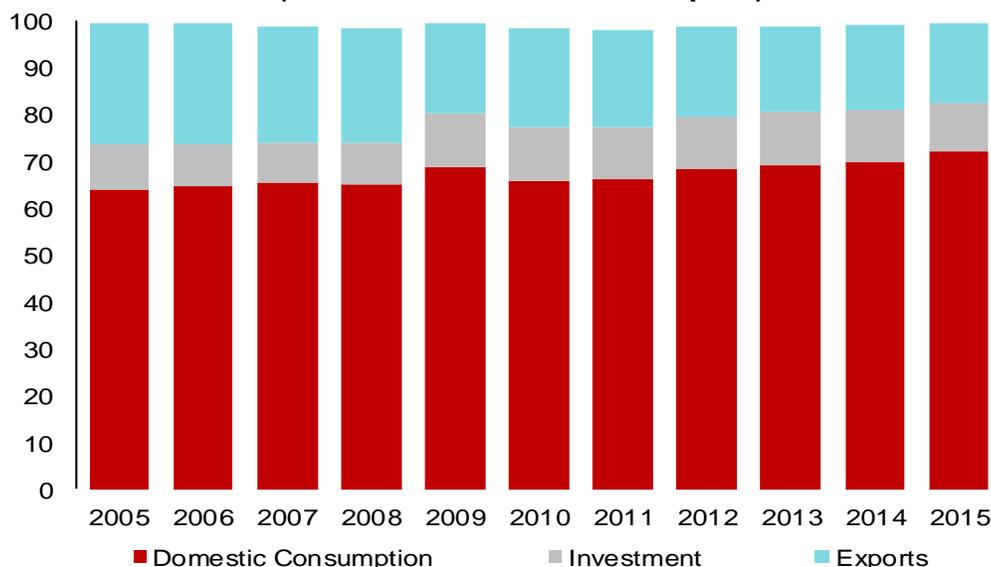
ASEAN-4, China, Vietnam: Share of GDP Components, Import-Adjusted Method (Percent)



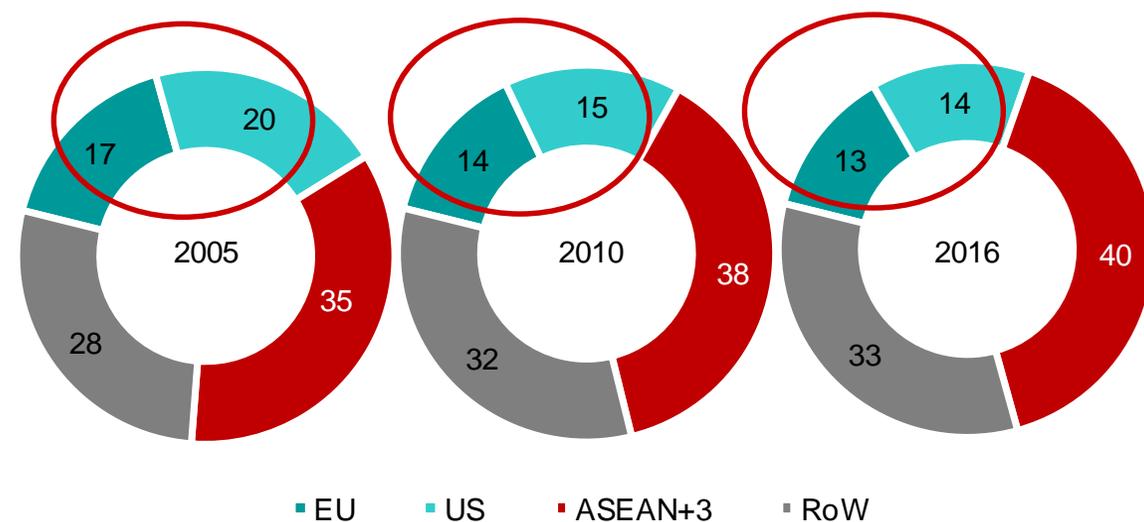
However, Factory Asia is indeed a region-wide phenomenon, with wave after wave of economies pursuing this growth strategy

- But the rise of Factory Asia has been very much a broad region-wide phenomenon, not limited to China and ASEAN.
- Furthermore, besides domestic demand, intra-regional demand has also strengthened markedly within a decade.

ASEAN-4, China, and Vietnam: Shares of Domestically Manufactured Goods for Domestic Demand and Exports
(Percent of total output)



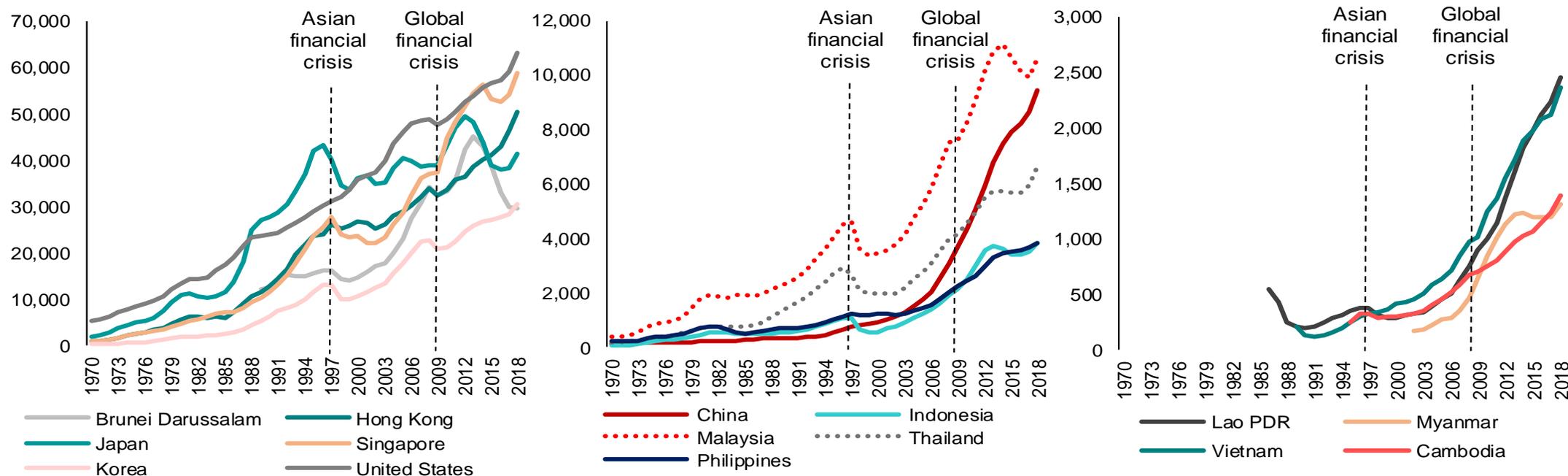
ASEAN: Share of Value-Added Exports (Percent)



Shopper Asia came later, but is now an important half of the story of growth catch-up, and of burgeoning intra-regional demand

- The rise of Factory Asia has enabled the emergence of Shopper Asia.
- ASEAN+3 economies have been highly successful in using the manufacturing-for-exports strategy to industrialize and move up the production value chain – and just as importantly, climb the income ladder.

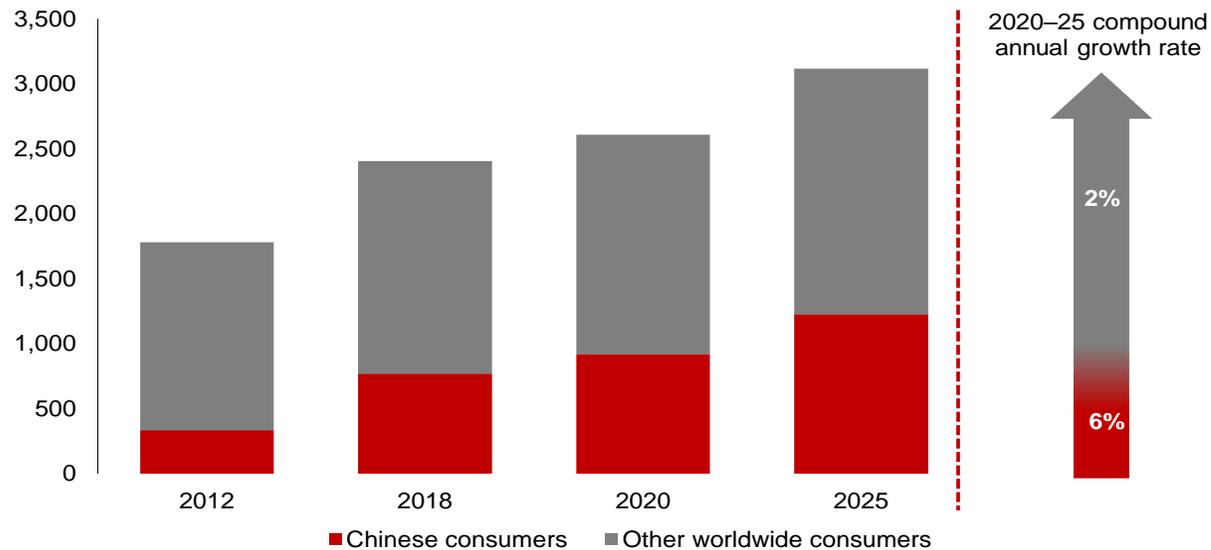
Gross National Income Per Capita (US dollars)



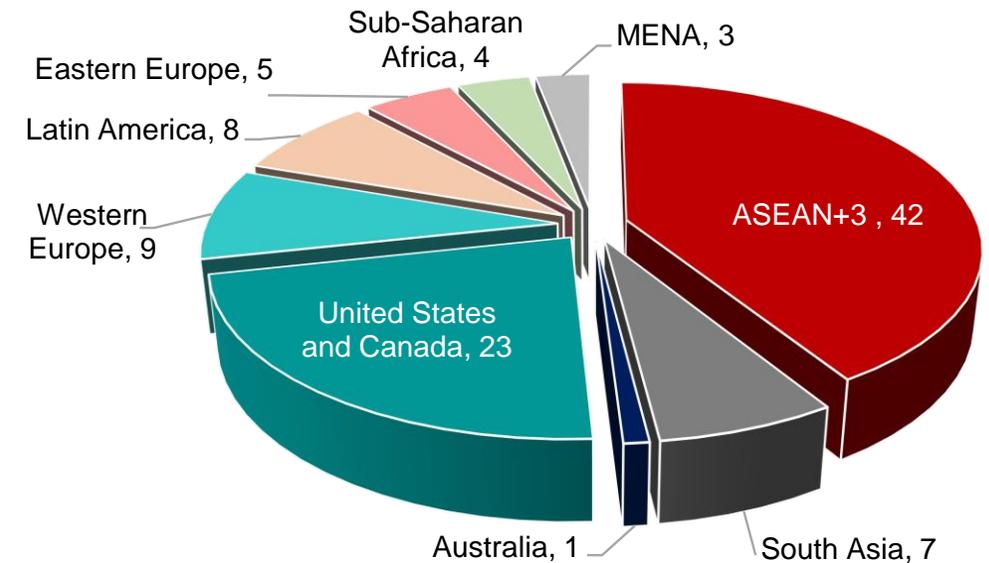
A large part of the Shopper Asia story continues to be about manufacturing, with both regional and global demand being important

- **China is at the core of this: Its demand for luxury goods is anticipated to double within the next five years, from about RMB 770 billion to RMB 1.23 trillion – accounting for some 40 percent of the global market. ASEAN+3 region could drive 42 percent of global urban consumption growth by 2030.**
- **This is about manufacturing. And global demand remains highly important.**

China and the Rest of the World: Spending on Luxury Goods (RMB Billions)



Share of Urban Consumption Growth, 2015-30 (Percent)



- The new growth paradigm of Factory Asia serving Shopper Asia also involves the rapid development of certain sectors that enables the production capacity of the former to meet the pent-up demands of the latter.
- Need to put in place or strengthen public infrastructure, including that for financial safety nets and social safety nets.

Traditional manufacturing for export

- **Comparative advantage based on production costs**
 - *Global value chains (GVCs)*
 - *Physical goods*
 - *Specialization for cost efficiency; penalty for product differentiation (less scale economies)*
- **External demand, export-driven growth**
- **Growth: orderly, upward progression**
 - *Primary to manufacturing to services*
- **Capacity & connectivity**
 - *Labor upgrading, technology adoption*
 - *Physical infrastructure*

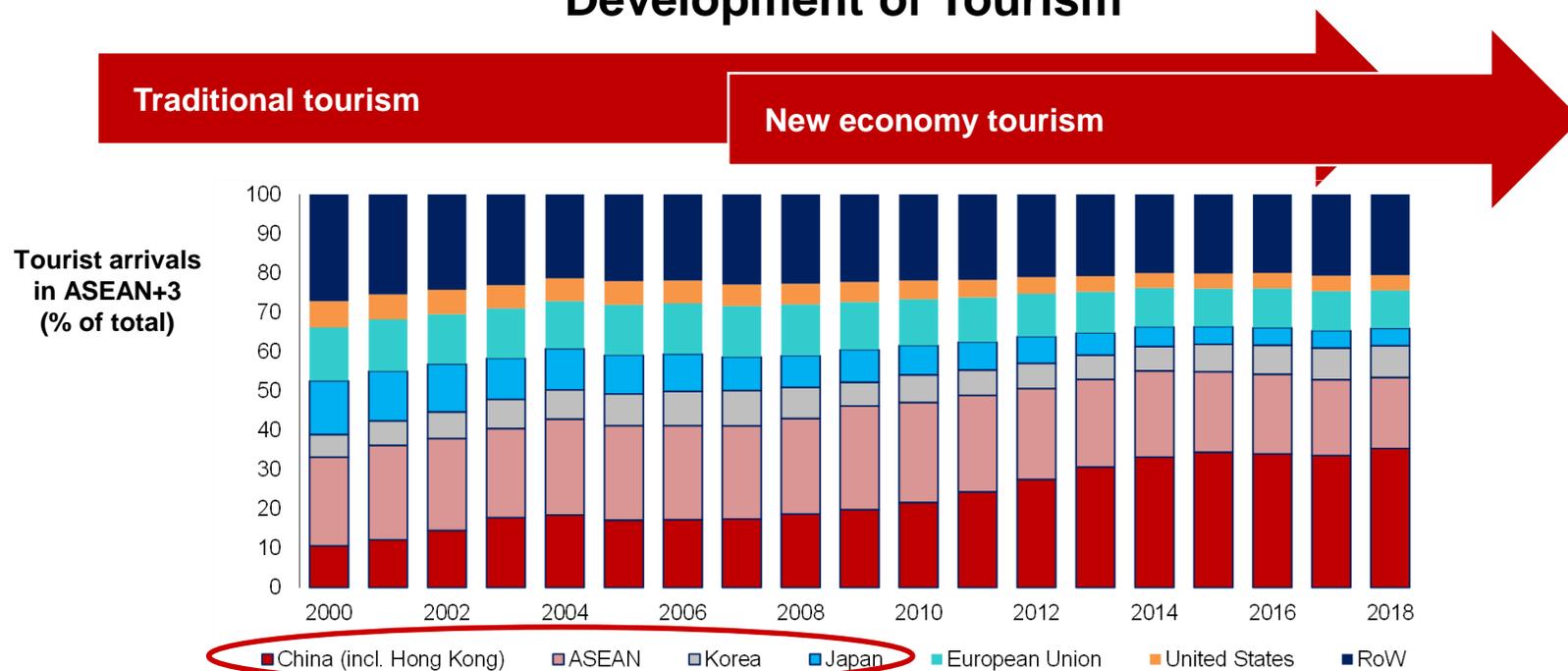
New growth paradigm

- **Competitive advantage driven by (cost efficiency and) demand drivers**
 - *Global value networks (GVNs)*
 - *New Economy: services and experiences, gig economy*
 - *Customization to demand; product differentiation by bundling goods with (different) services*
- **Rebalancing: domestic & final demand in ASEAN+3**
- **Eclectic growth: lateral & upward progression**
 - *Leapfrogging, potentially disruptive*
- **Capacity & connectivity**
 - *Innovation, data analytics, new services*
 - *Physical, soft, digital, financial infrastructure*

A good case study for the new growth paradigm is the tourism sector, for which technology, services, and cross-border trade all feature

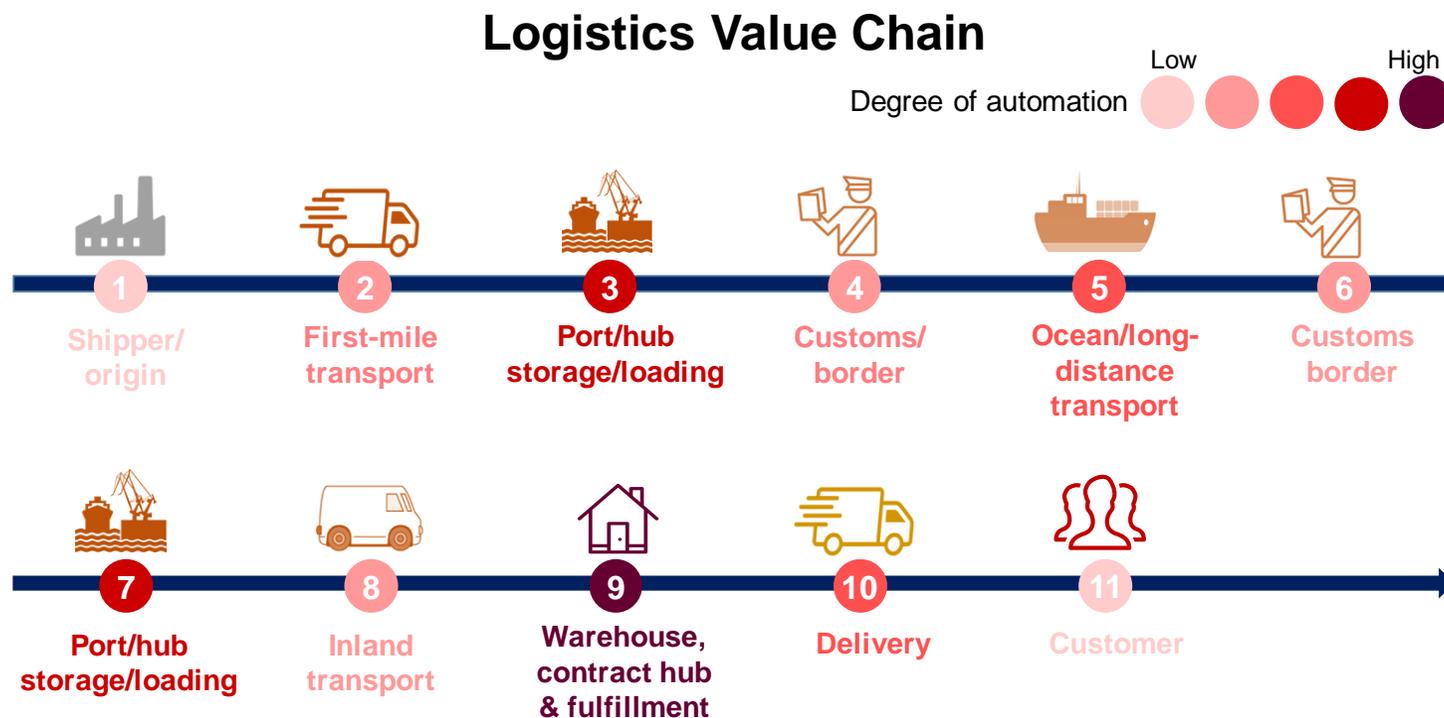
- **Case study: tourism: Customizing new economy services to Shopper Asia (e.g. medical tourism)**
- **Studies highlight that apart from its growing role in ASEAN countries' growth, tourism exhibits extensive linkages with other sectors of economies.**

Development of Tourism



Another case study for the new growth paradigm is the logistics sector, whereby e-commerce drives demand, and new technologies are emerging

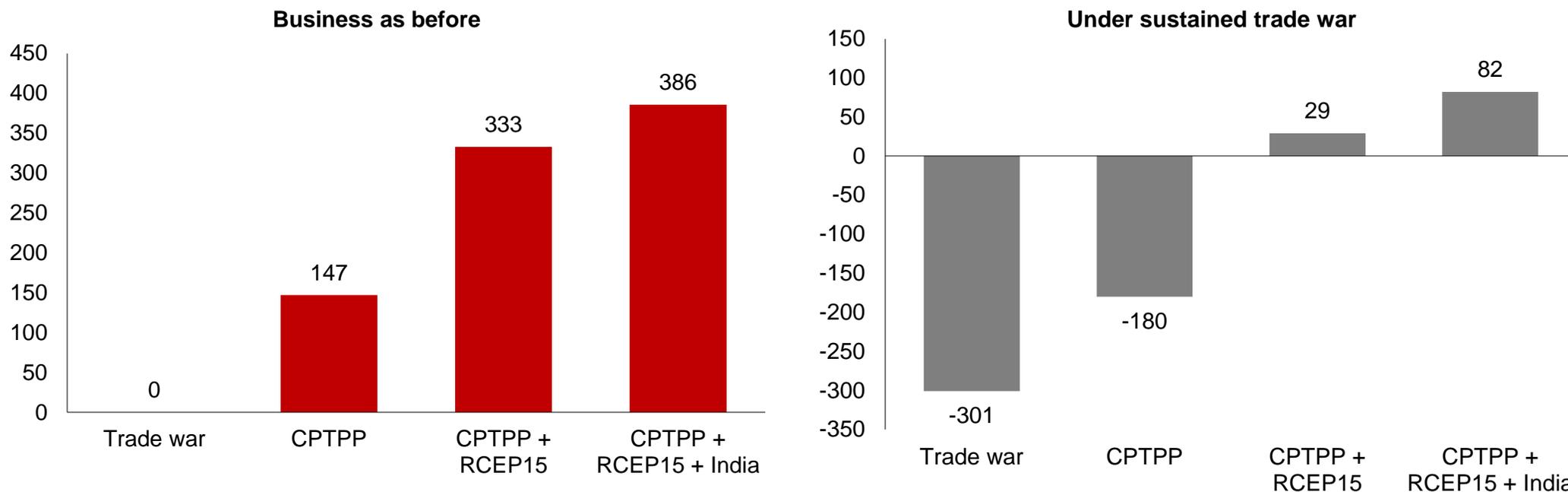
- E-Commerce will give a boost to the logistics industry
- The conventional logistics value chain is not highly automated, but new technologies are creating potential for automation and productivity gains.



To sustain growth and jobs, trade deals will be important drivers, and the region has two major deals underway: the CPTPP and RCEP

- **Peterson Institute for International Economics (PIIE) analysis suggests that the CPTPP and RCEP will raise global national incomes in 2030 substantially**, by an annual US\$147 billion and US\$186 billion respectively.
- **Compared with “business as before”, the trade war generates large global losses** rising to US\$301 billion annually by 2030. The new agreements offset the effects of the trade war globally, but not for US and China.
- **The trade war makes RCEP especially valuable** because it strengthens East Asian interdependence, raising trade among members by US\$428 billion and reducing trade among non-members by US\$48 billion.

Global income effects of Asia-Pacific trade policies in 2030 (income gains/losses in billions of US dollars)



Key takeaways: the region has been a key part of the global production base and marketplace, and must continue to integrate more deeply into both of these

Challenging external environment – covid-19 scars, protectionism, restructuring to new normal

Economic fundamentals are strong – high saving and investment, fiscally prudent, sound financial system, external positions are strong => resilient to shocks

Factory Asia and Shopper Asia – highly competitive regional supply chain and a rapidly rising affluent middle class

Region is technologically advanced and ready to embrace digital technology

Human capital: hard working, well educated workforce, digitally savvy, enterprising

Thank You

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