

Chapter 1.

# Macroeconomic Prospects and Challenges



# Highlights

- The start to 2020 has been eventful—the ASEAN+3 region’s resilience will be tested, especially in the first half of the year. 2019 had already been an unsettling year, as a result of the US-China trade tensions and a general weakness in external demand. Nonetheless, the region grew by an estimated 4.8 percent—albeit down from 2018—supported by its strong macroeconomic fundamentals, sound financial systems, and broadly disciplined macroeconomic policymaking.
- Trade developments were the main factor behind the slowdown in 2019. Regional exports were hit by the tariff measures and negative sentiment surrounding the repeated escalation and de-escalation in the US-China trade conflict. The impact was cushioned somewhat by factors such as tariff exclusions, trade and investment diversion, and a strong tourism sector, buoyed by arrivals from China and ASEAN.
- ASEAN+3 growth is projected to slow sharply in 2020, to 4.2 percent. AMRO estimates that the coronavirus (COVID-19) outbreak in China will reduce its growth by 0.7 percentage point, with attendant spillovers to the rest of the region. Main risks to the outlook arise from the uncertainty related to the spread, duration and severity of what has now become a global pandemic, its impact on G3 growth, and the possibility of a resumption in US-China trade tensions.
- The heightened uncertainty resulting from the global spread of the coronavirus has introduced greater volatility in markets. In March, the US Federal Reserve implemented two surprise inter-Federal Open Market Committee meeting interest rate cuts, totaling 150 basis points, and launched a massive USD 700 billion quantitative liquidity program when US dollar funding stress led to a broad sell-off across asset classes and volatility in equity markets reached global financial crisis levels.
- The COVID-19 global pandemic is expected to impact the trajectory and composition of regional growth. Following a very weak first half of the year, AMRO expects economic activity to rebound strongly in the second half, led by manufacturing—supported by recovery in the global semiconductor and capex cycles—and positive sentiment surrounding the US-China Phase One trade agreement. In the short term, the services sector—tourism, in particular—is expected to be hard hit but should gradually recover once the pandemic subsides.
- Timely and skillful use of the various policy levers will be crucial for the region in 2020. Importantly, most ASEAN+3 economies still have some policy space and buffers to react to shocks that are materializing. With the spectre of the COVID-19 global pandemic casting a long, dark shadow over the world, regional policymakers will need to strategically use that policy room to boost growth while safeguarding financial stability.