

# Foreword

AMRO's *ASEAN+3 Regional Economic Outlook* (AREO) annual flagship report is in its fourth edition. Launched in 2017, the 20<sup>th</sup> anniversary of the Asian Financial Crisis, the report attempts to provide a holistic view of trends and developments in the ASEAN+3 region. It draws on the insights of AMRO's various country teams with regard to the risks, vulnerabilities, and challenges facing the individual economies, and attempts to weave them into a coherent narrative of developments from a regional perspective. This is no easy task: given that the ASEAN+3 economies have diverse levels of development and income. The economies range from low-income developing economies to middle-income emerging markets, to high-income mature economies. They comprise some of the least-developed agrarian economies to some of the most technologically advanced economies. Yet, despite their diversity, the regional economies are becoming more integrated over time, bound together by trade, investment, and people. The adage, "geography is destiny," aptly encapsulates the region.

The AREO report has two parts: The first focuses on the short-term outlook, in particular, the risks and vulnerabilities facing the region, and the policy responses by the authorities. The second is thematic, focusing on the challenges facing the regional economies in their quest for growth and, for some, their aspirations to catch up to the advanced economies.

2019 has been a highly eventful year, marked by the escalating and de-escalating US-China trade tensions, geopolitical conflicts, domestic political unrest, market sell-offs, and extreme weather conditions and natural disasters. Just as we were closing the 2019 chapter on a brighter note, with the conclusion of the US-China Phase One trade deal, geopolitical tensions in the Middle East flared up, rocked by the assassination of a high-level official in the region. Overnight, oil prices shot up, jeopardizing a key assumption behind our growth projections. Thankfully, the situation was contained and tensions subsided. These developments have made the preparation of the report very challenging, particularly the first chapter on the short-term outlook.

However, just as things were quieting down, the novel coronavirus (COVID-19) outbreak in Wuhan, China, erupted and spread to several countries in the region. Again, our baseline forecast for recovery in the region was thrown into disarray. This time, no reprieve was forthcoming, and we have had to crank up our models to take into account the impact of the COVID-19 epidemic on the region. With the situation still evolving, and entire cities and countries shutting down, there is great uncertainty over how severe the pandemic will be and how long it will take to contain its spread. The global spread of the coronavirus led to panic sell-offs in financial markets and prompted the US Federal Reserve to cut interest rates by 50 basis points on March 3, and by another 100 basis points on March 15. Guided by experience with the severe acute respiratory syndrome epidemic in 2003 and the latest information on the key features of the COVID-19, we have made some brave assumptions on the duration and severity of the pandemic and revised our forecasts for the region. Our baseline is that the region will be hard hit in H1 2020, but then rebound strongly in the second half of the year.

Separately, our thematic chapter continues the storyline that we have been pursuing over the last three reports—the quest for growth and development by the regional economies and the challenges they face along the way. Our 2018 AREO report reviewed the "manufacturing for export" growth strategy followed by the regional economies for several decades, in light of technological changes, and affirmed its continuing relevance and efficacy; at the same time, it proposed the inclusion of services as a second engine of growth. *AREO 2019* built on the narrative by asking what capacity and connectivity are needed to leverage the new digital technology to enhance and sustain growth.

This year, we take a step back and review the prospects for sustaining growth in the region, in view of four major trends in the global economy: the increasing protectionist environment in the United States and Europe; the Fourth Industrial Revolution; the rise of Factory Asia and Shopper Asia; and the growing regional integration. We find that the new economy offers many opportunities for growth, based on harnessing the new digital technology to create new products and services to meet the discerning demands of the affluent middle class in Asia. The saga continues.

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