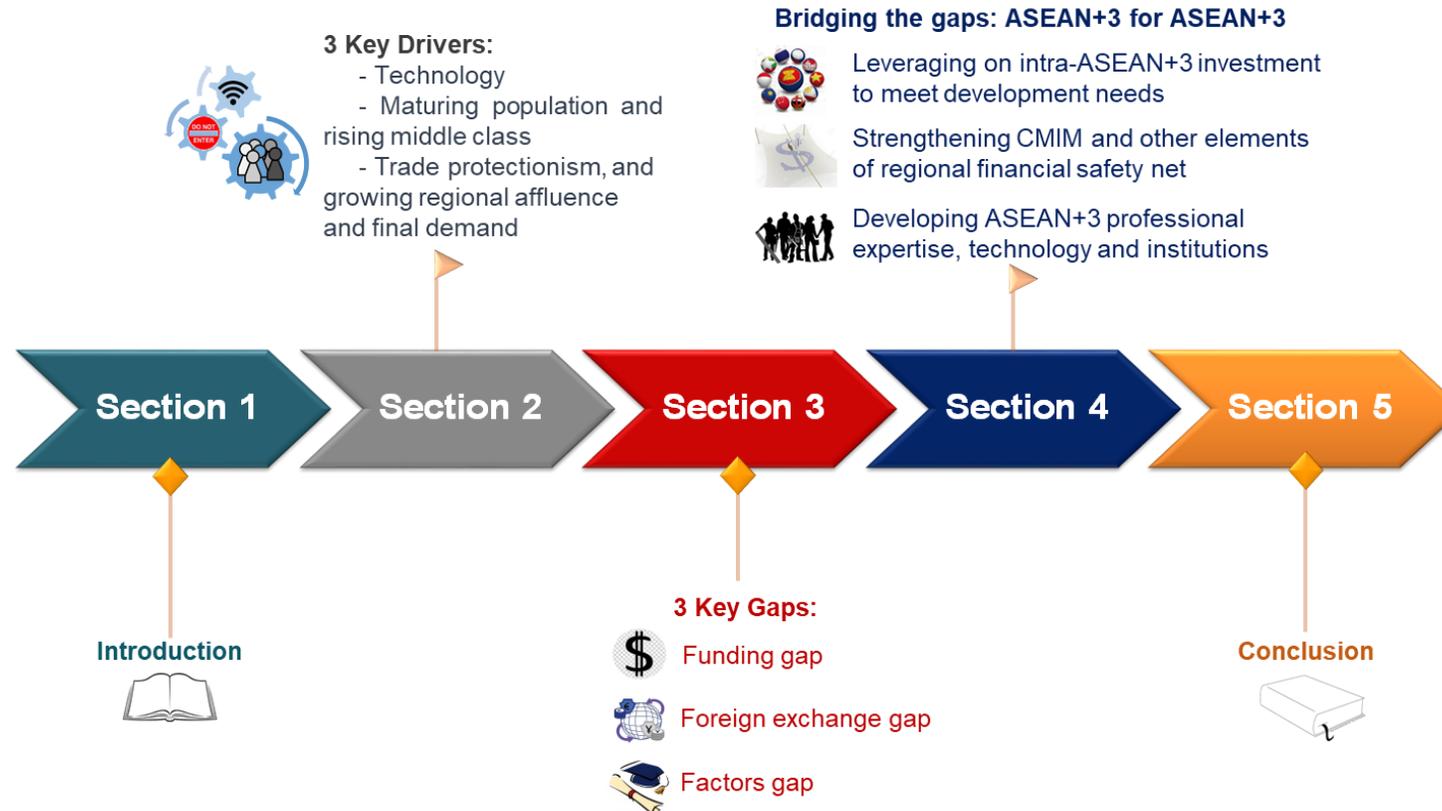


Building Capacity and Connectivity for the New Economy in East Asia

ASEAN+3 Macroeconomic Research Office (AMRO) Seminar
1 May 2019, Nada, Fiji

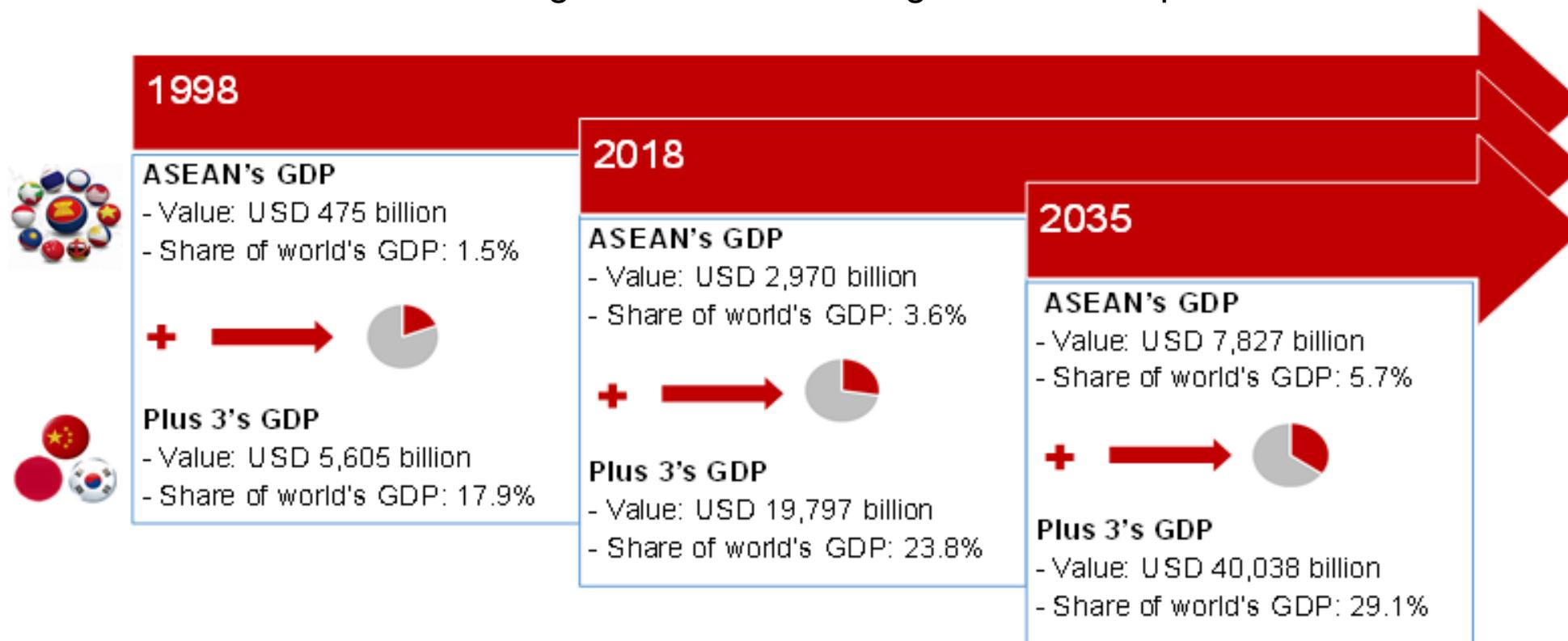
2019 AREO thematic chapter: builds on 2017 narrative of economic consolidation and rebalancing after the Asian Financial Crisis (AFC), and 2018 message of resilience and growth

Summary of 2019 Thematic Chapter



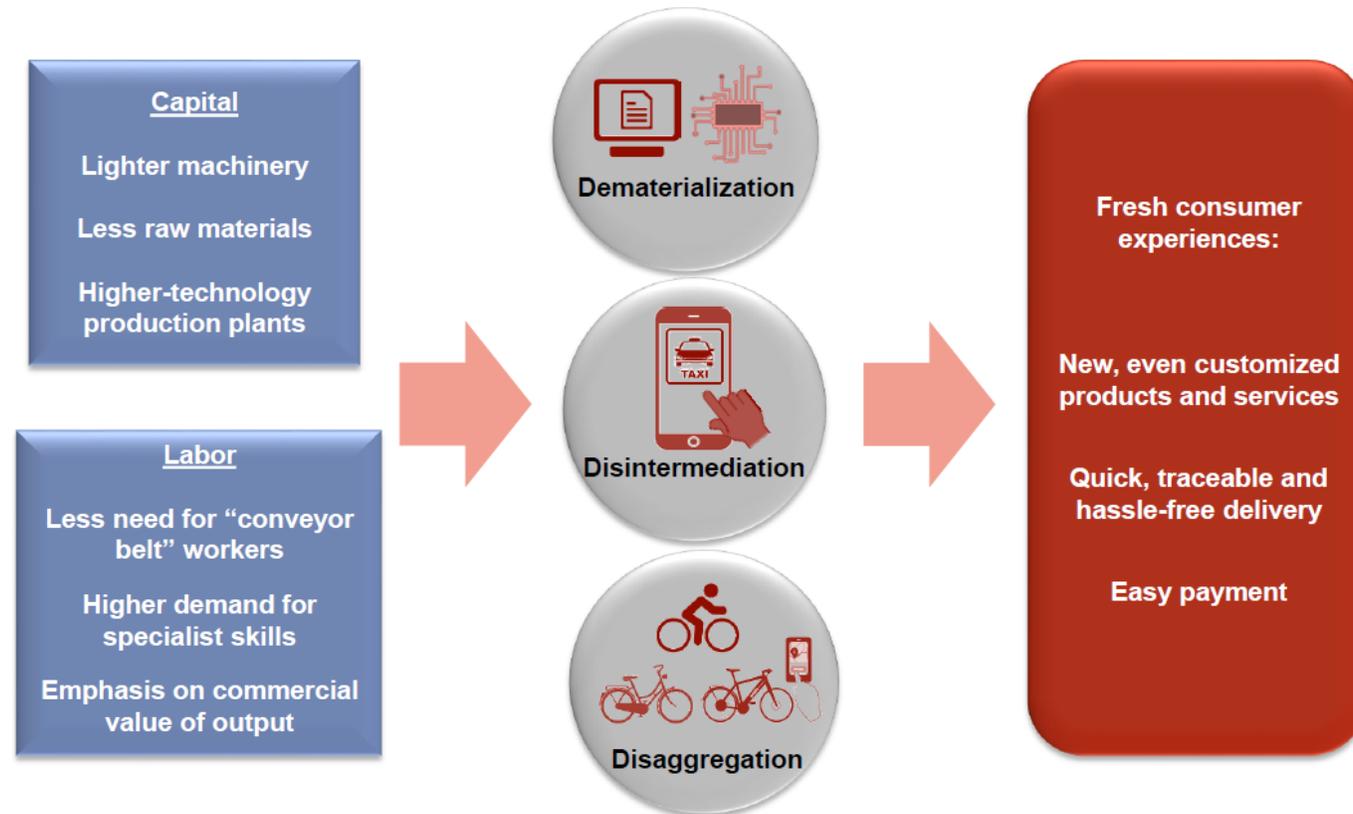
Rebalancing and resilience after the AFC: from a crisis-shaken region to one which emerged from the GFC strongly, and positioning itself for rapid growth in the years ahead

ASEAN+3 Region’s Economic Weight: Three Snapshots



Manufacturing and Services are being transformed: need higher-technology / digital tools and tech-savvy human capital to produce and deliver new goods and services

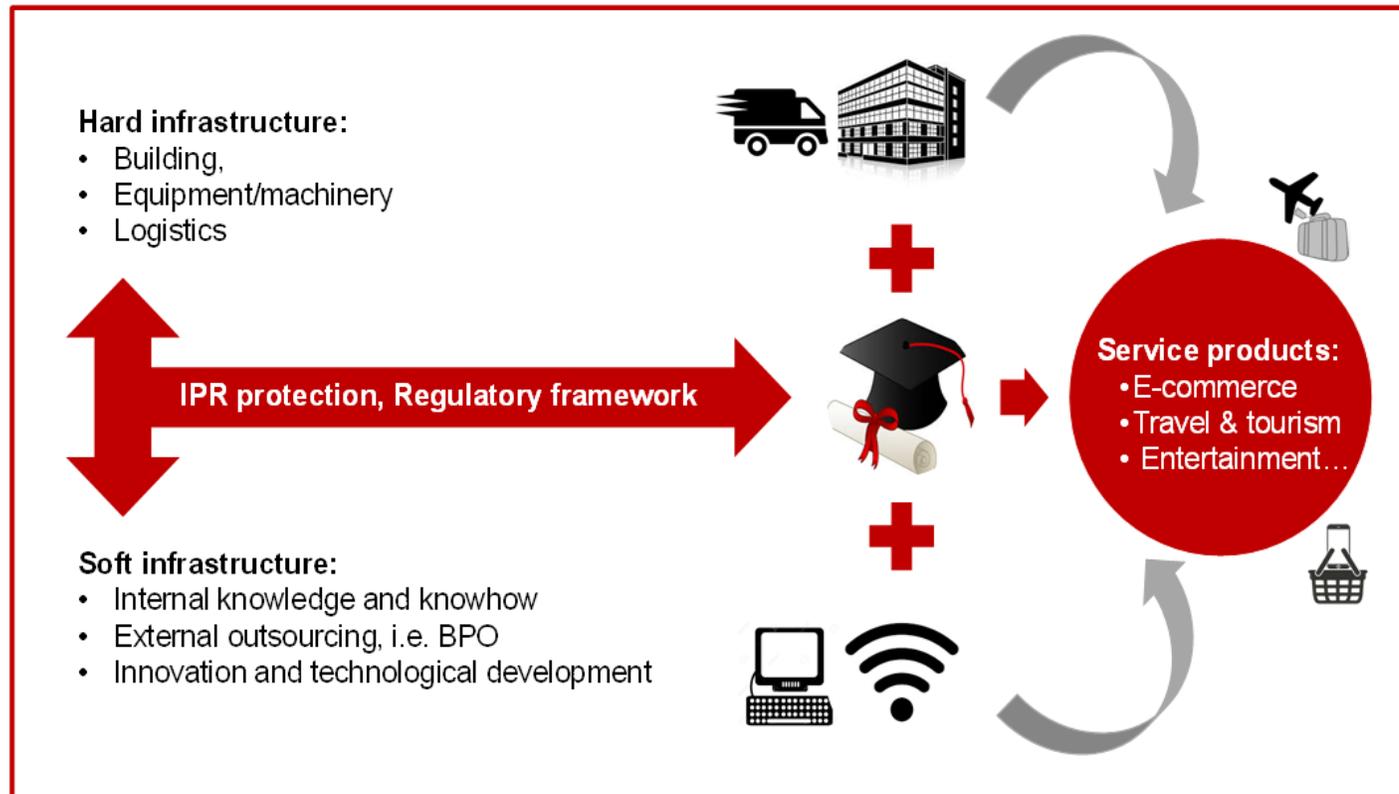
Schematic Illustration of “New Economy”



Fourth Industrial Revolution and the New Economy: Artificial Intelligence, automation, digital technology, internet of things, new service products

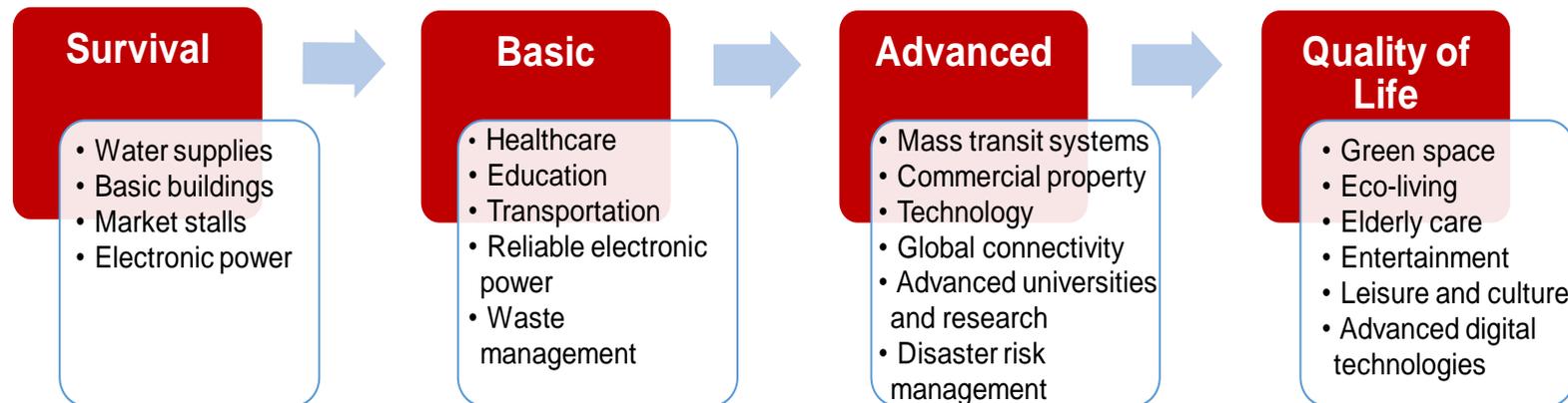
- Supply chains will keep evolving: tools and human capital need to keep up

Services Value Chains in the New Economy: Stylized Representation

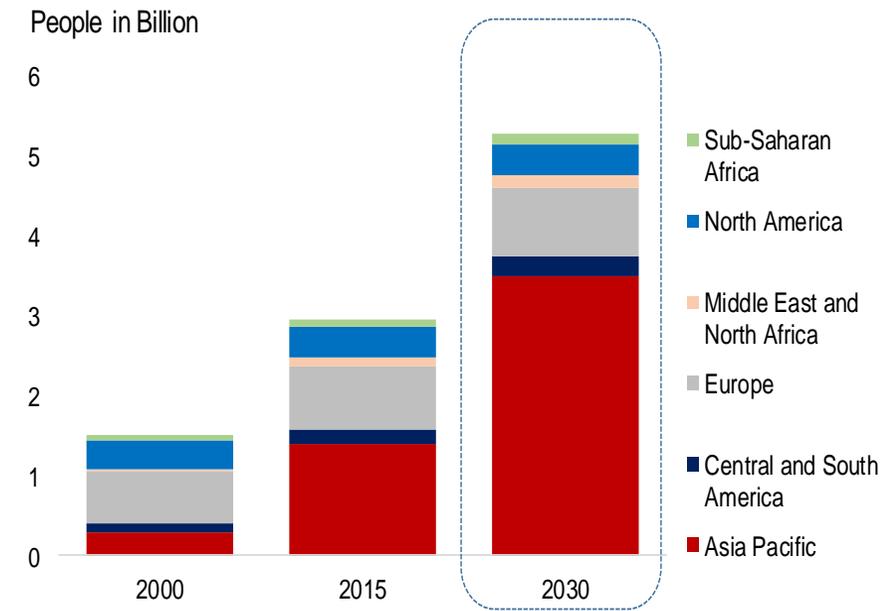


Maturing populations + expanding middle class: rapid urbanization and demand for more sophisticated goods and services

Infrastructure Needs for Demographic Shifts Alongside Economic Development



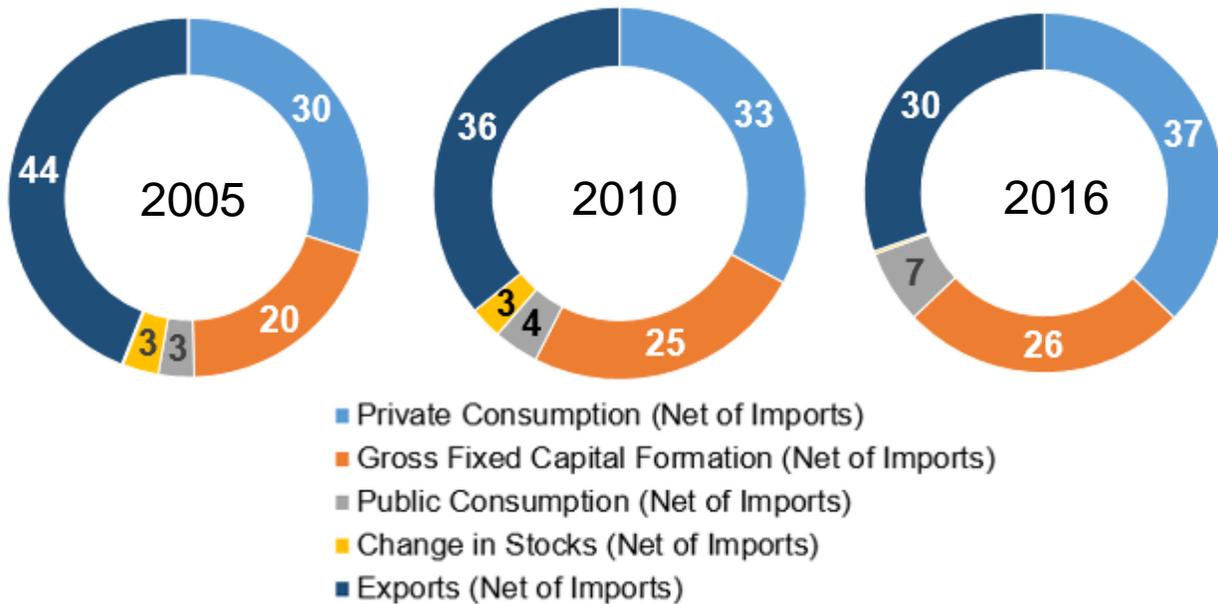
Global Middle Class Population



Protectionism and regional integration: region has become more integrated, driven by rapid growth and economic rebalancing after the GFC

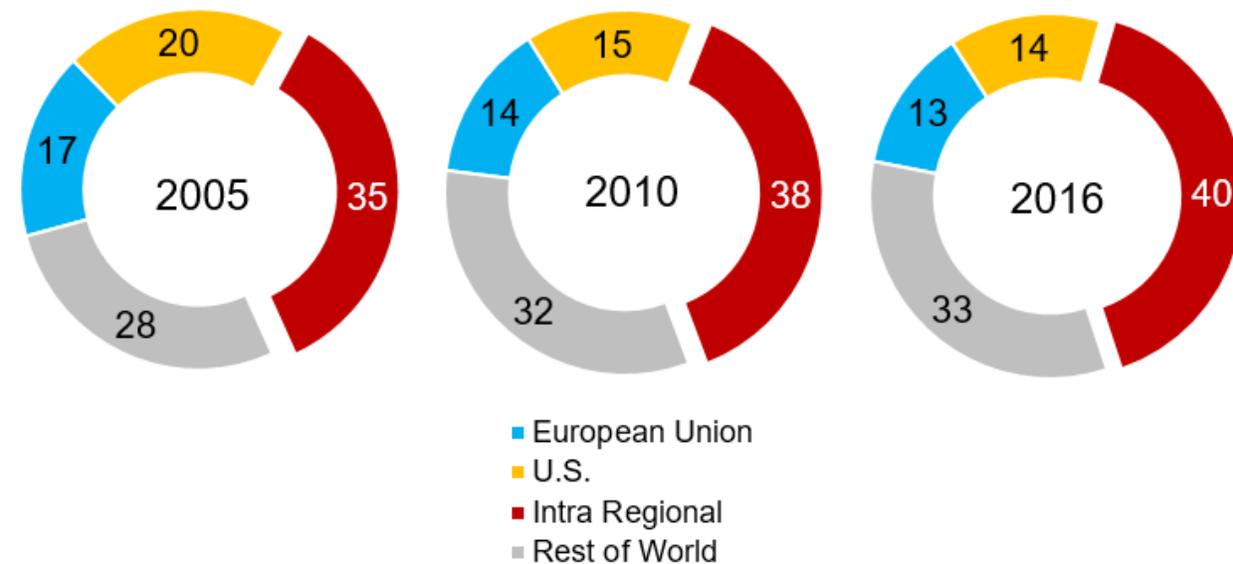
ASEAN-4 and Vietnam

(Share of Real GDP by Expenditure, Import-Adjusted Method)



ASEAN's Value-Added Exports

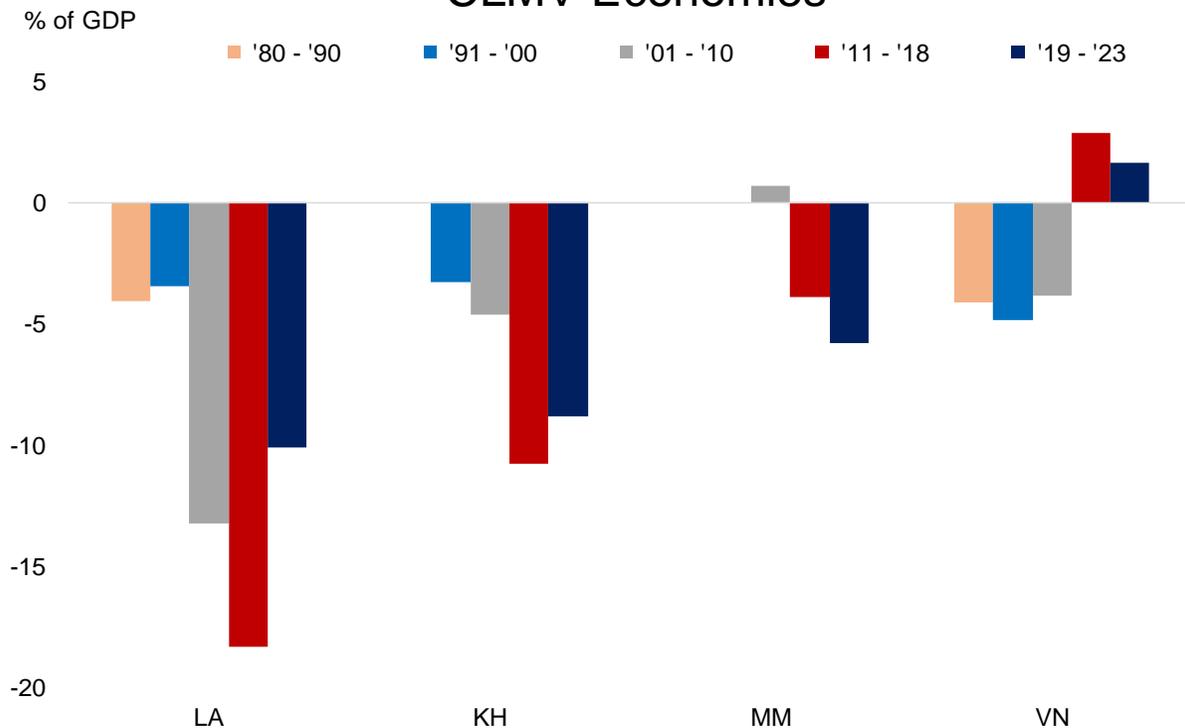
(% Share, by Major Destinations)



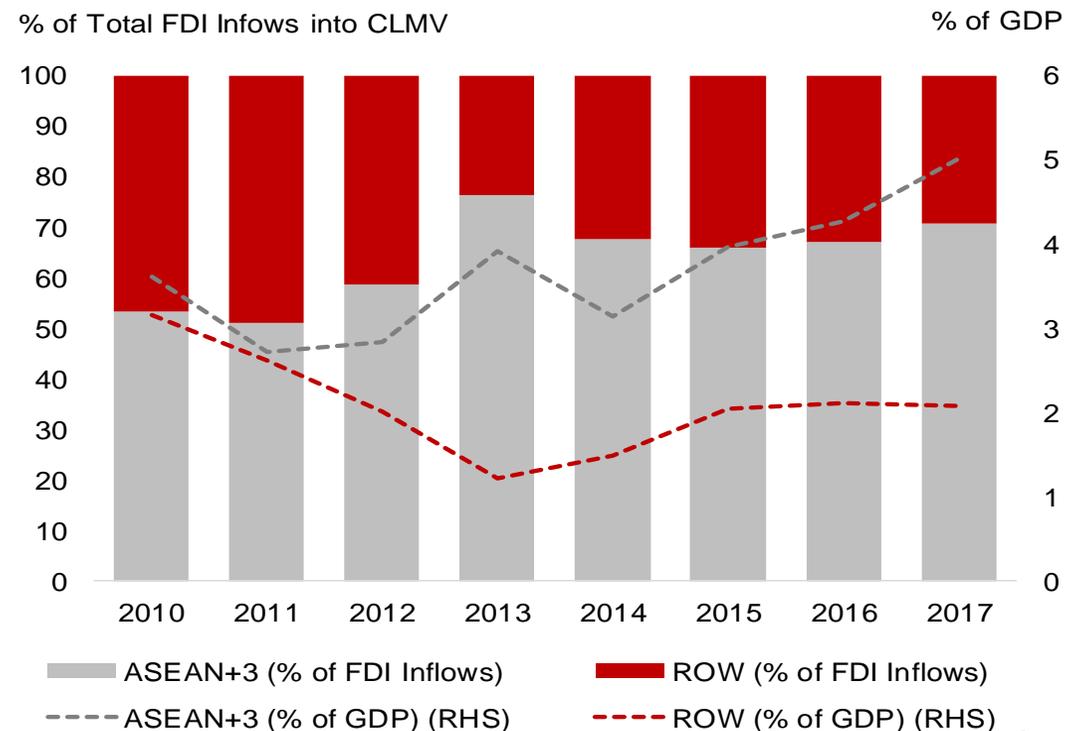
CLMV countries: large funding gaps being met increasingly by investment from the more advanced regional economies

- Benefited from intra-regional FDI, which has helped to plug part of their savings-investment gap

Current Account Balance: CLMV Economies



FDI Inflows into CLMV Economies from ASEAN+3 and Rest of the World



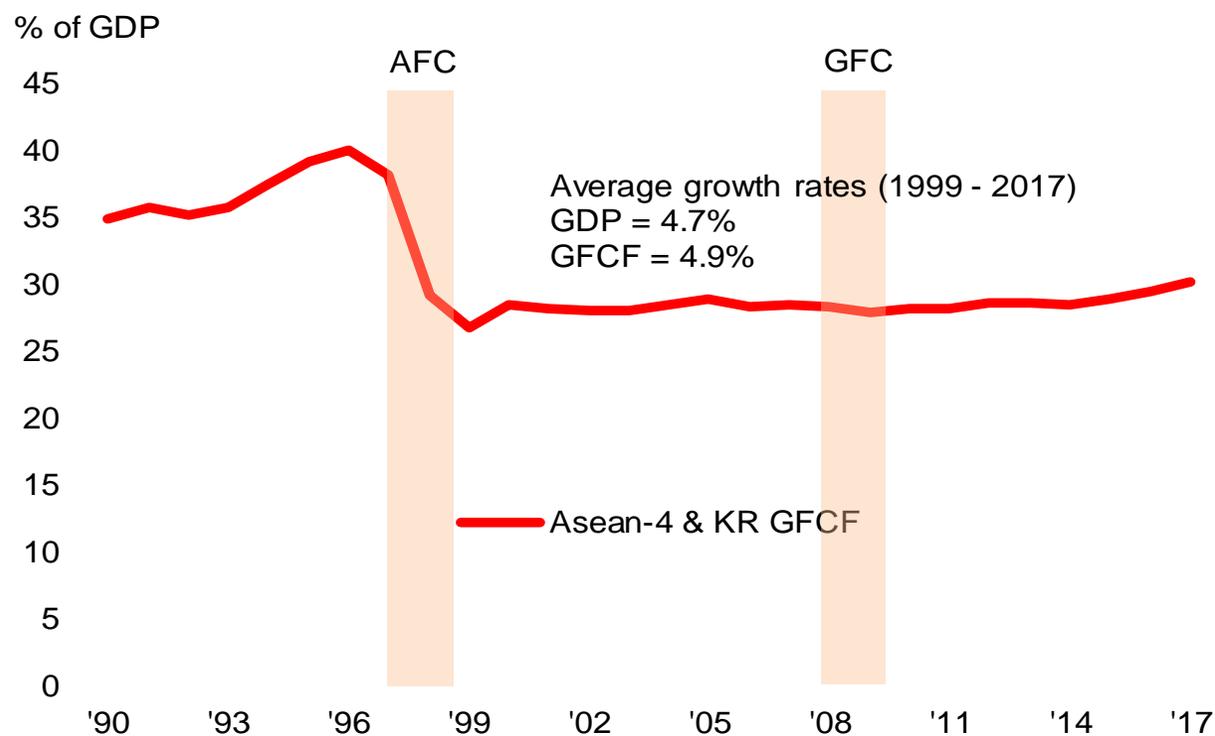
Sources: IMF; and AMRO staff calculations.
 Note: Cambodia's current account balance starts from 1992.

Sources: ASEAN Stats Data Portal; and AMRO staff calculations.

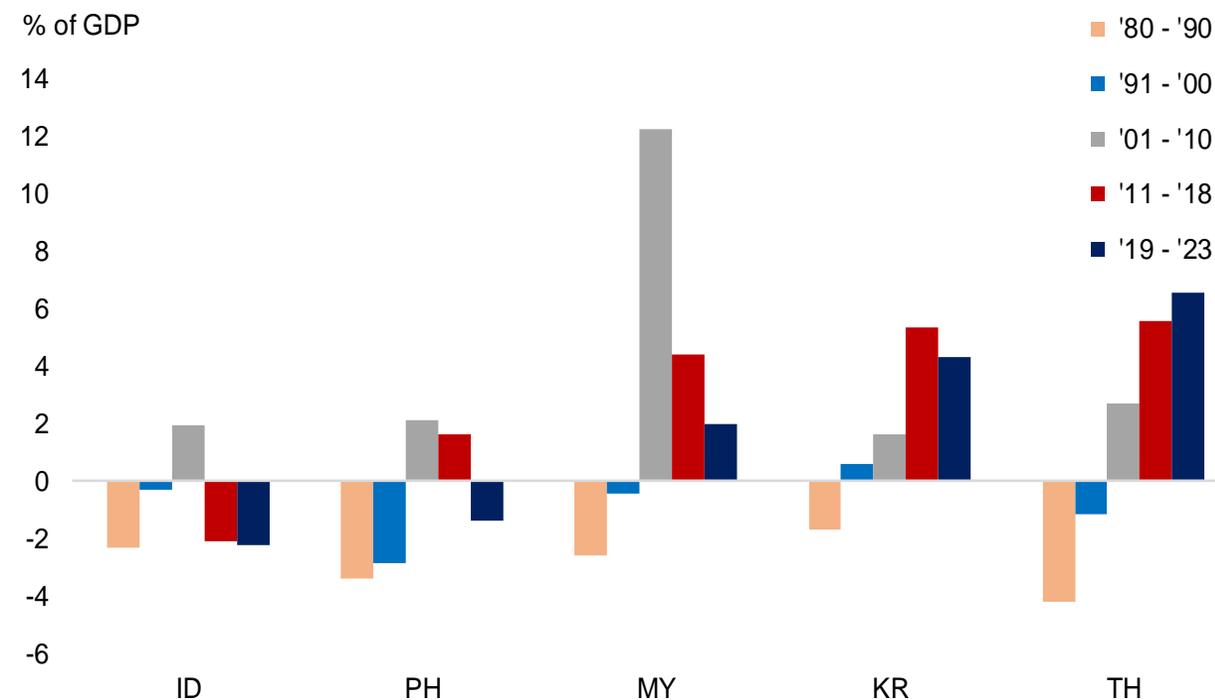
ASEAN-4: forex constraint a key factor holding down investment

- Need to save and build up sufficiently large foreign reserves as buffer against capital outflow risks

Investment Share of GDP: ASEAN-4 and Korea



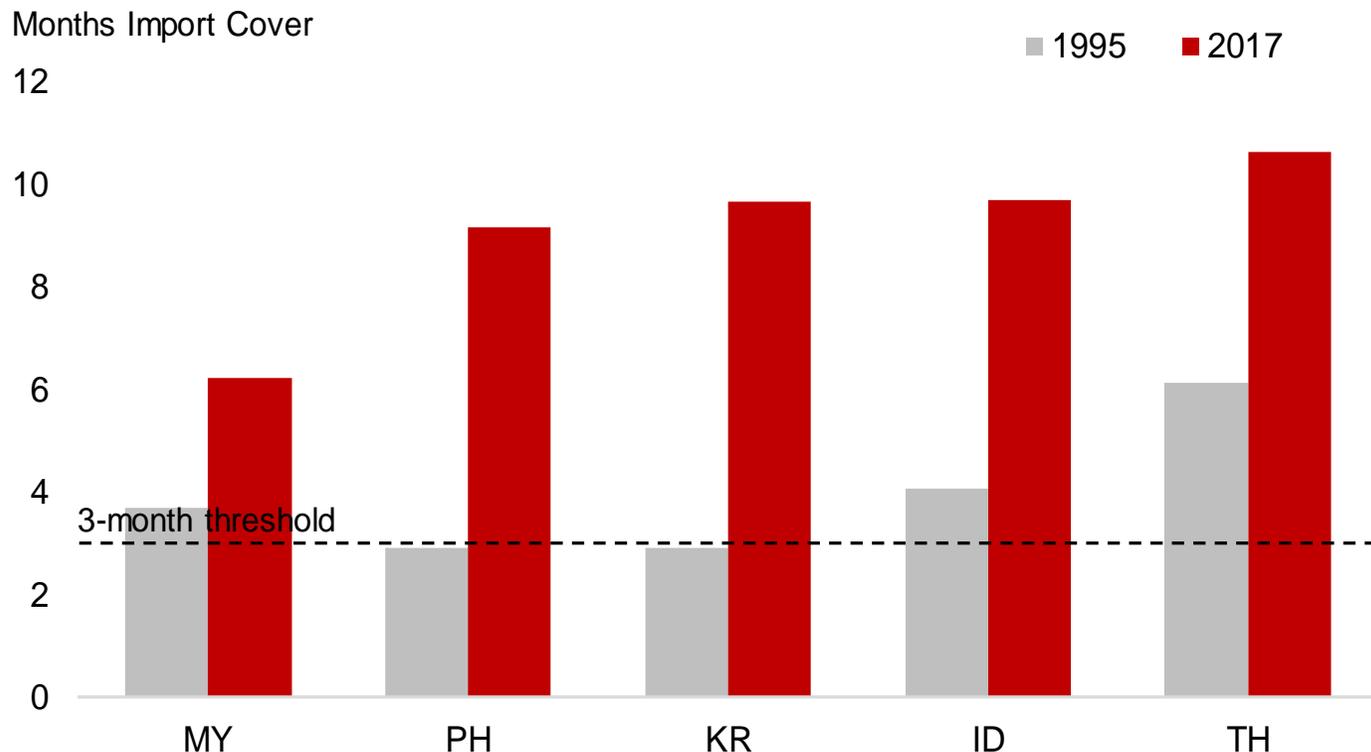
Current Account Balance: ASEAN-4 and Korea



Foreign exchange gap captures the tension between growth and stability that has persisted in the ASEAN-4 economies for the last 20 years after the AFC

Foreign Reserves Coverage of ASEAN-4 and Korea

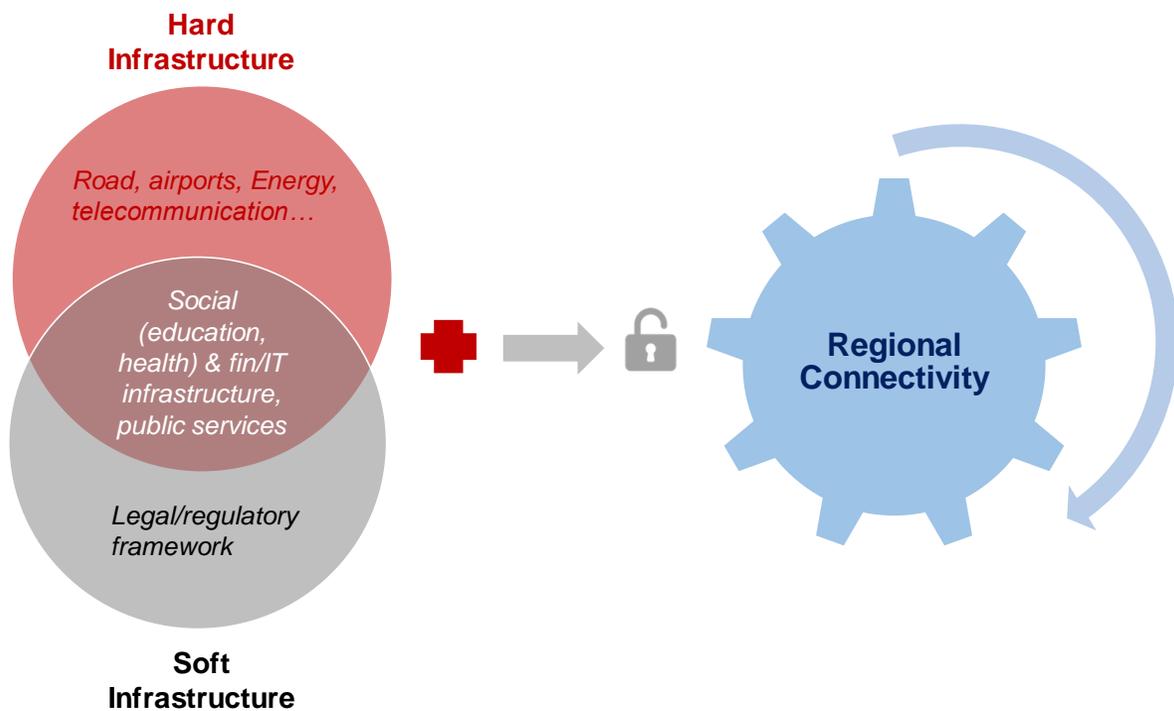
2018 Report of G20 Eminent Persons Group (EPG)



“Excessive volatility reduces the room for maneuver in policymaking, and can lead to responses that hurt growth, both nationally and regionally.”

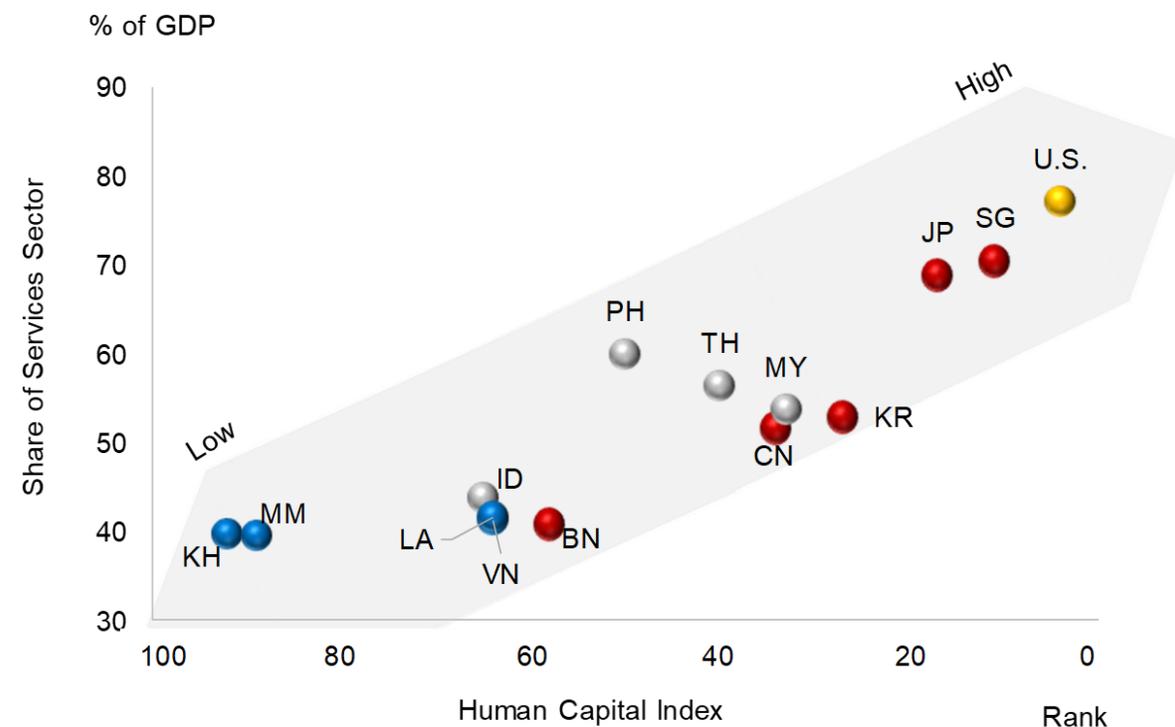
Hard infrastructure is indispensable for development, but soft infrastructure – including cross-country connectivity – is also key for unleashing the region’s growth potential and facilitating its transition to the “new economy”

Hard and Soft Infrastructure and Regional Connectivity



Source: AMRO staff.

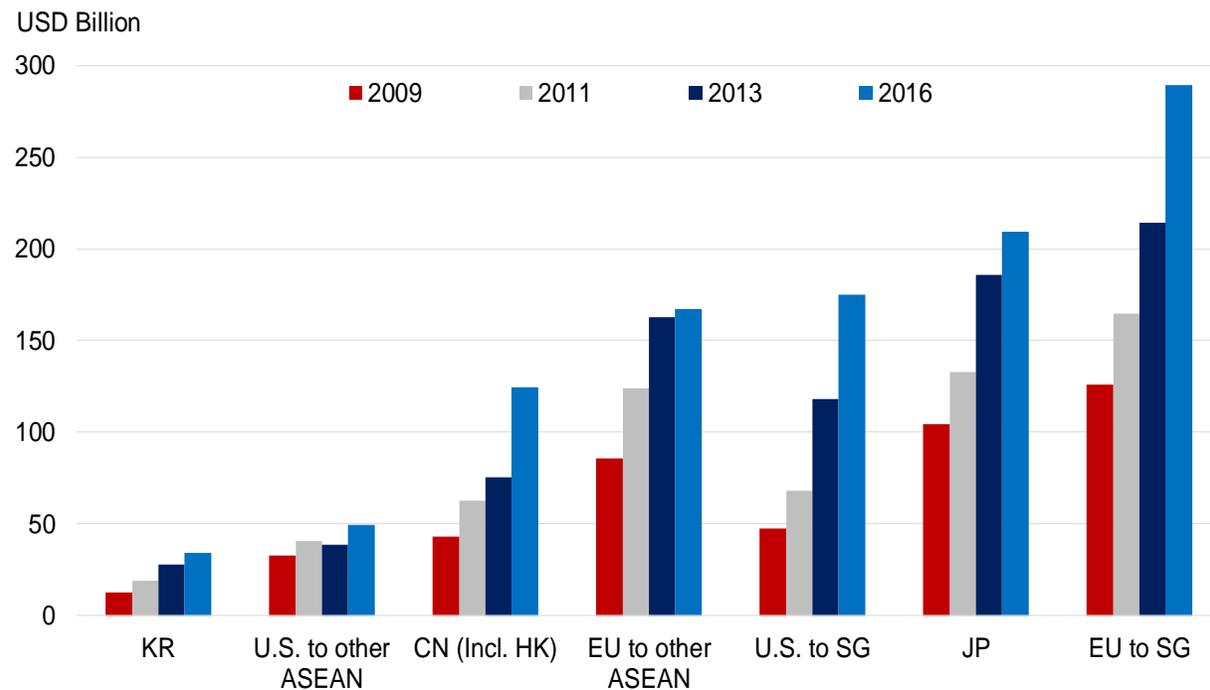
Human Capital and Services Sector Development, 2017



Source: World Economic Forum.

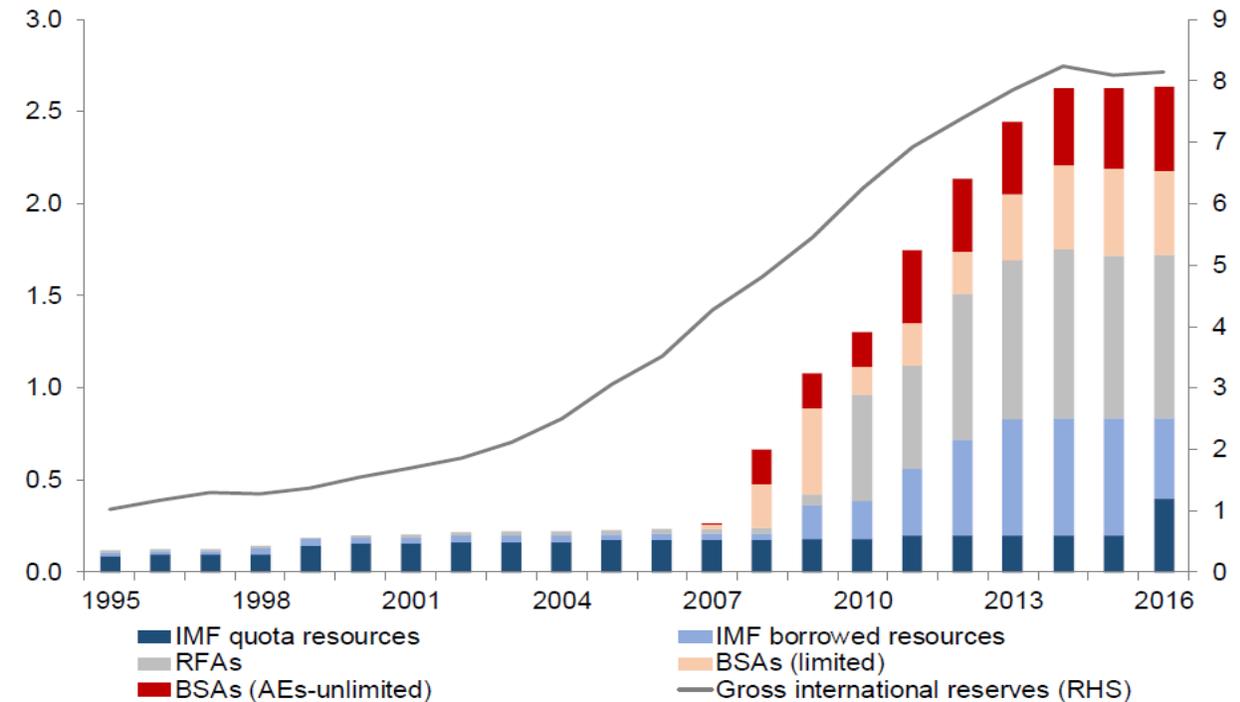
Bridging funding and forex gaps: ASEAN+3 should leverage on intra-regional savings and investment, and strengthen regional financial safety net

FDI into ASEAN Economies:
Selected Source Countries and Regions



Sources: IMF CDIS; and AMRO staff calculations.

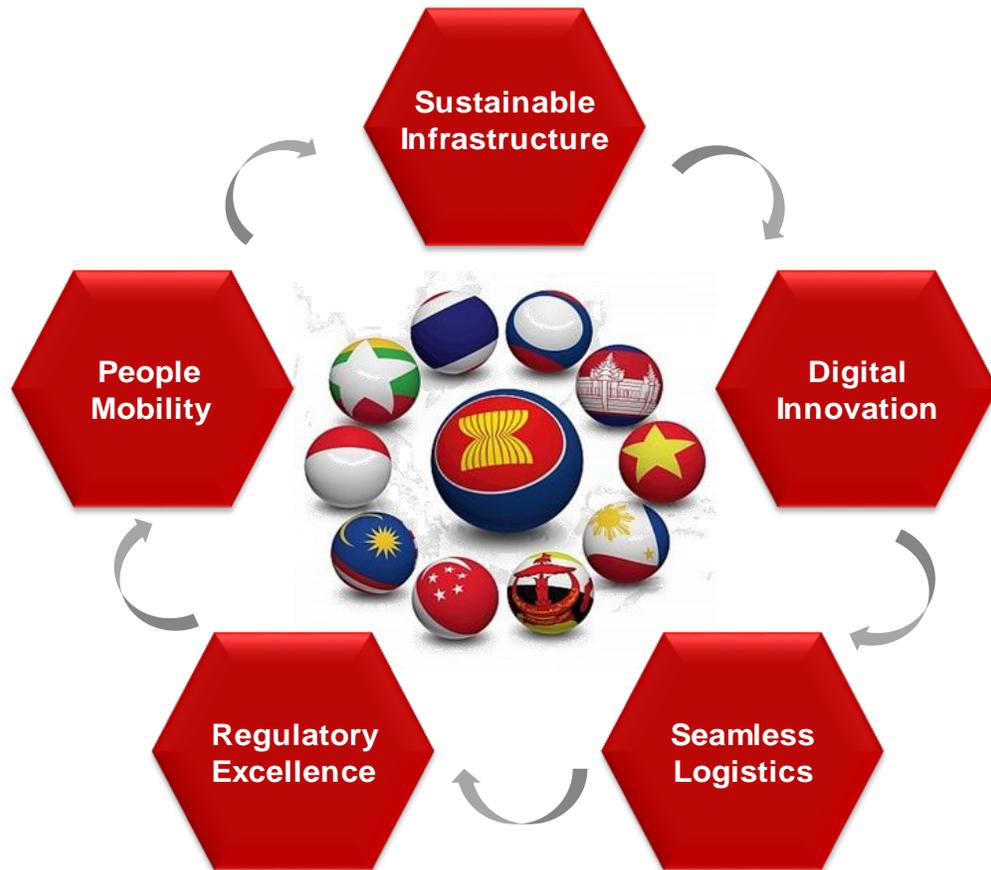
Composition of Global Financial Safety Net (GFSN)
[In trillions of Special Drawing Rights (SDRs)]



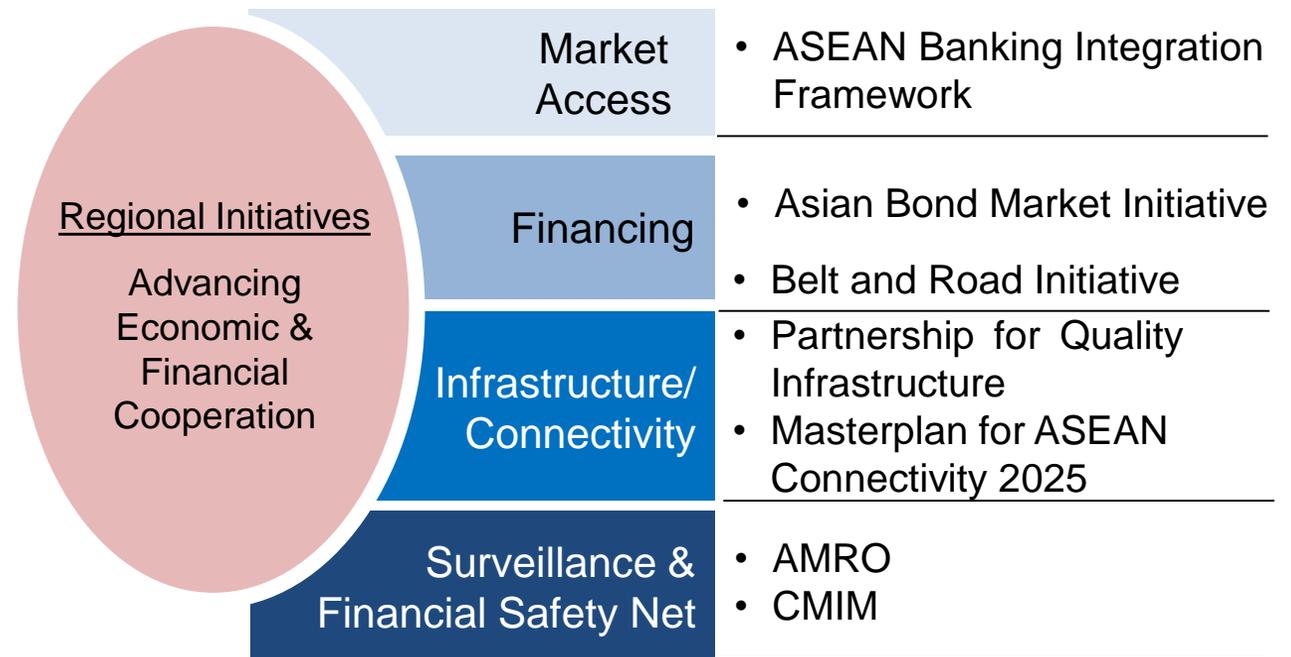
Source: IMF.

Regional connectivity initiatives have been stepped up.

Master Plan for ASEAN Connectivity (MPAC)



ASEAN+3 Regional Economic and Financial Cooperation



- 1 **Leverage on regional complementarities**
- 2 **Continue embracing multilateralism and regional integration**
- 3 **Embrace new technologies and facilitate restructuring**
- 4 **Build soft infrastructure to enhance regional connectivity**
- 5 **Strengthen governance of infrastructure projects**
- 6 **Enhance the regional financial safety net**

“Rapid economic growth in the ASEAN+3 region will generate new infrastructure demand and sharpen the collective focus on meeting projected investment shortfalls. Transition to the technology-heavy and services-driven new economy could accentuate strains arising from conventional gaps facing the region, and it is imperative that the developing economies invest in human capital and leverage on the complementarities in the region. There is therefore a greater need than ever before for ASEAN+3 to embrace technology, integration, multilateralism, and further strengthening of regional financial safety nets.”

Thank You

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