

**ASEAN+3 Regional Economic Outlook
Roadshow in China
AMRO 2018年东亚经济展望报告发布会**

**15 June 2018, Shanghai
2018年6月15日, 上海**

Mandate

- Conduct macroeconomic and financial surveillance of global and regional economies
- Contribute to early detection of risks with policy recommendations, support effective decision-making in CMIM

Core Functions

Surveillance

- Conduct macroeconomic surveillance (regional, member countries, functional/sectoral) and conducting thematic studies/research

CMIM Support

- Provide support to members to ensure that the CMIM is operationally ready

Technical Assistance (TA)

- Provide TA to the members to enhance their human and institutional capacity for macroeconomic management

Regional Macroeconomic and Financial Stability

Comprehensive Surveillance Framework

**Country
Surveillance**

**Regional
Surveillance**

**Sectoral and Functional
Surveillance**

Policy Review Procedure

Analytical Framework

Research and Training

Data

Main Surveillance Products:

Country Surveillance:

Country Annual Consultation Reports
(publications available starting 2017)

Regional Surveillance

- ✓ ASEAN+3 Regional Economic Outlook Report (AREO, started to publish in 2017)
- ✓ Monthly Update (started to publish in Jan 2018)

Research

- ✓ Thematic studies
- ✓ Staff Working Papers
- ✓ Policy note (for topical issues)

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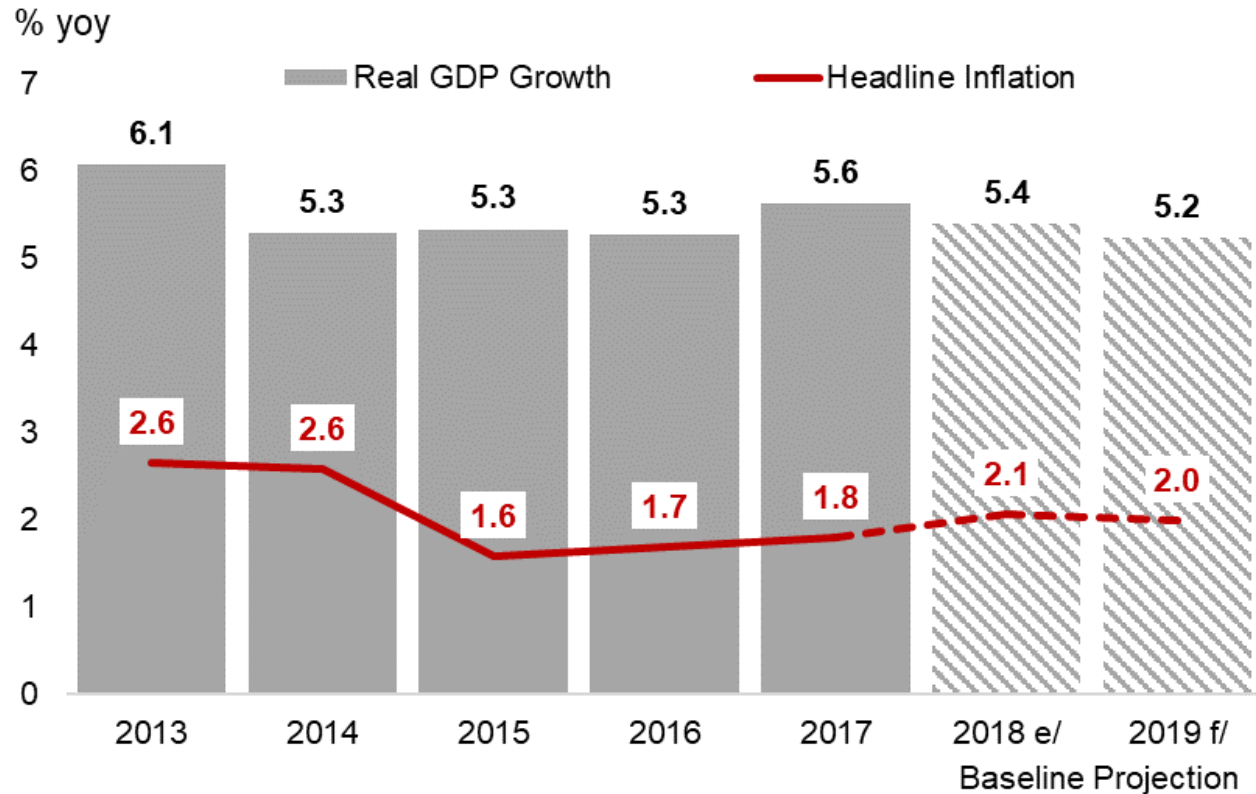
Macroeconomic Prospects and Challenges

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Theme: Resilience and Growth in a Changing World

Baseline: Resilient Growth, Stable Inflation

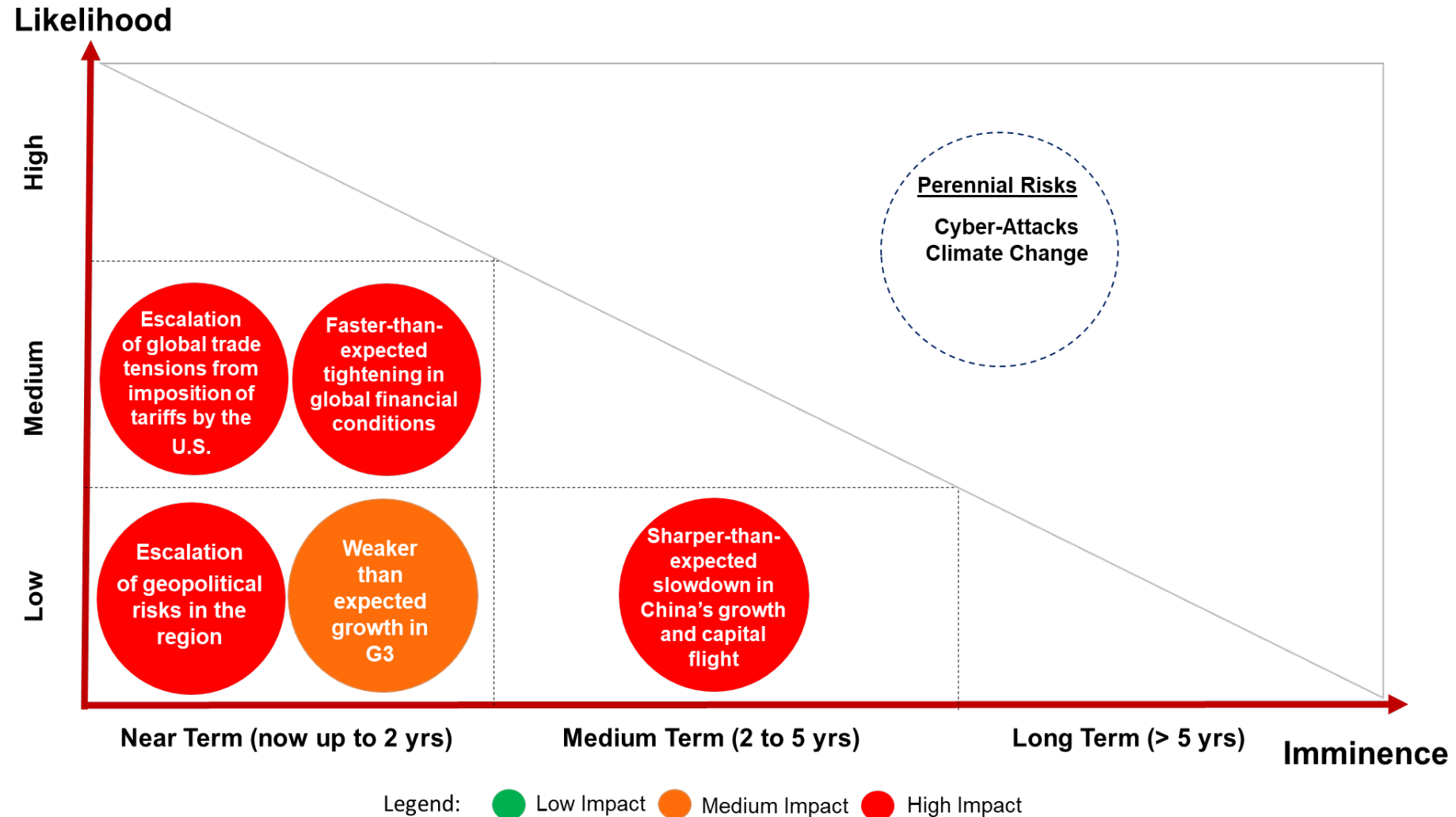
Growth in the ASEAN+3 region is resilient at above 5 percent, boosted by external demand and favorable global economic conditions plus domestic demand.



Real GDP growth % yoy	'17	'18 e/ Latest Estimates (Mar '18)	'19 p/ Latest Estimates (Mar'18)
	China	6.9	6.6
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
ASEAN+3	5.6	5.4	5.2

Global Risk Map: Risks Facing ASEAN+3 Region

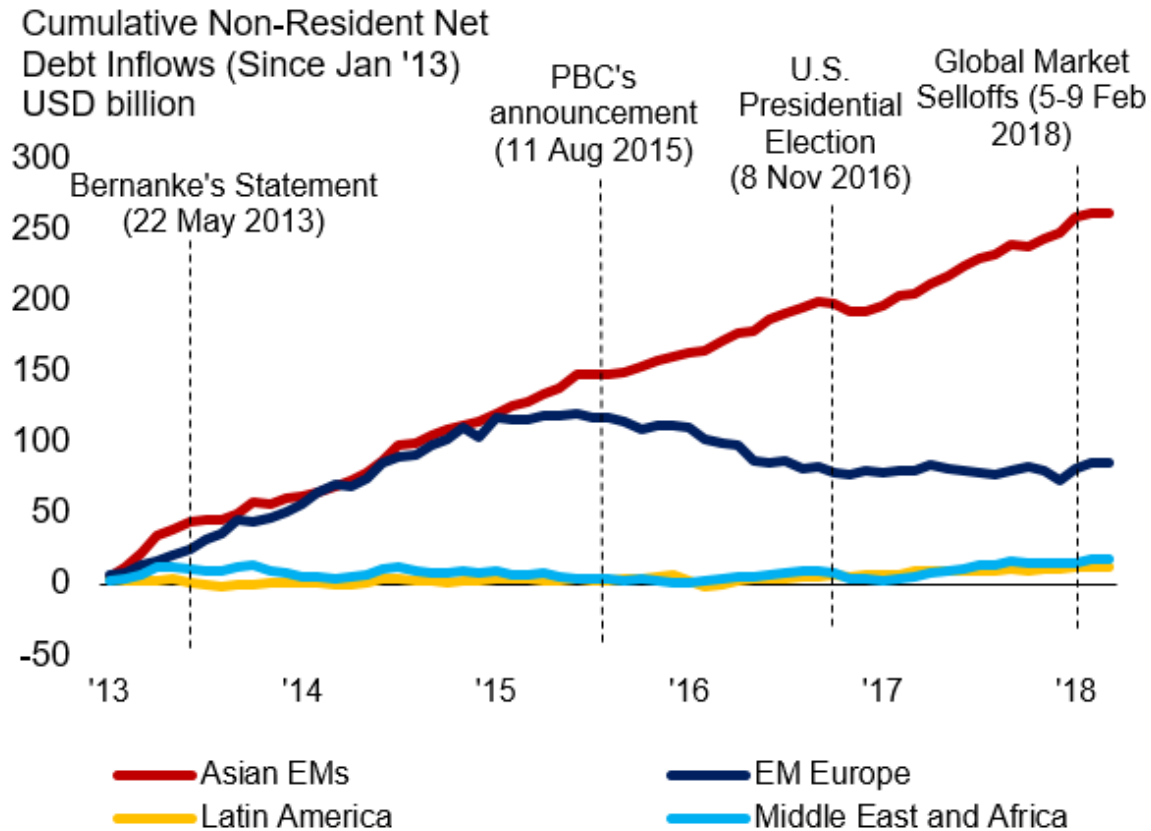
Risks confronting the region are mainly external.



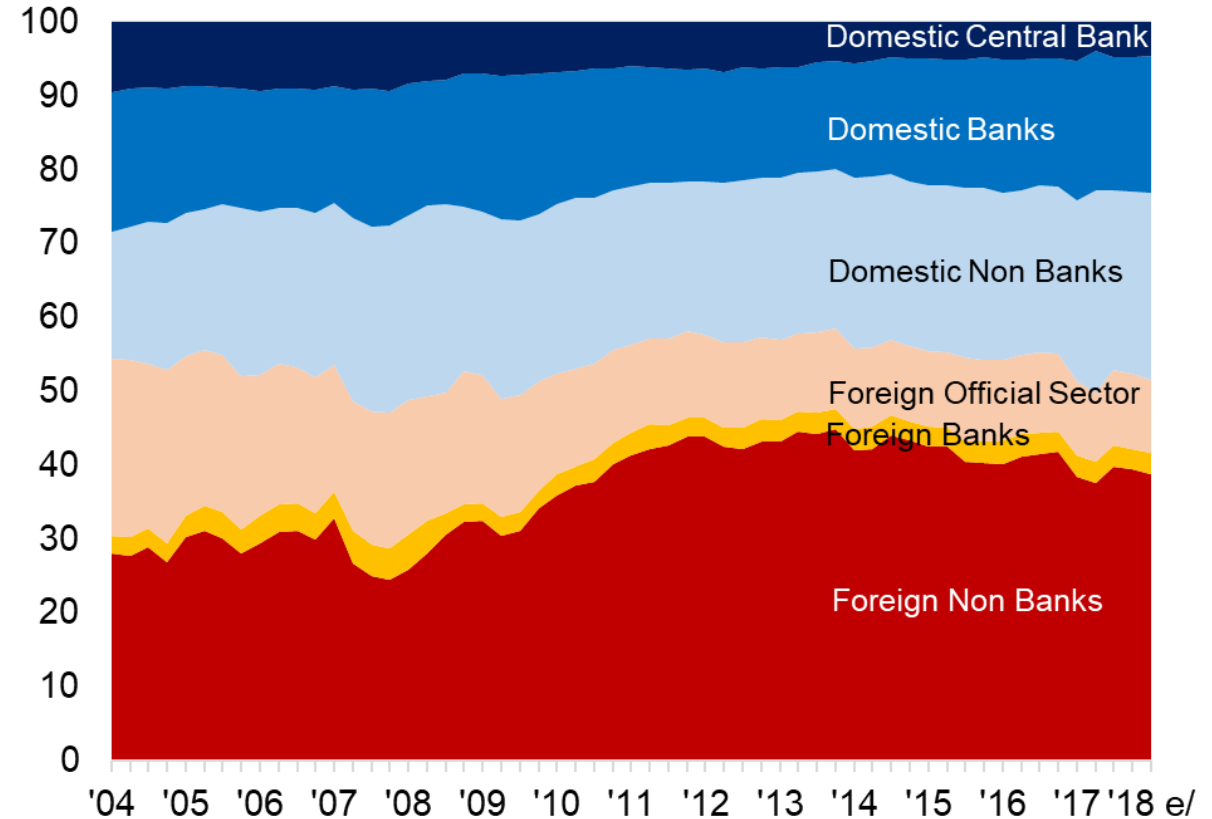
Risk Transmission: Tighter Global Financial Conditions

The region has benefited from large foreign capital inflows, mainly in the sovereign debt market...

...a large proportion of which is held by foreign non-banks, which is susceptible to reversal risks



Investor Base in ASEAN-4 Government Debt (% Outstanding)



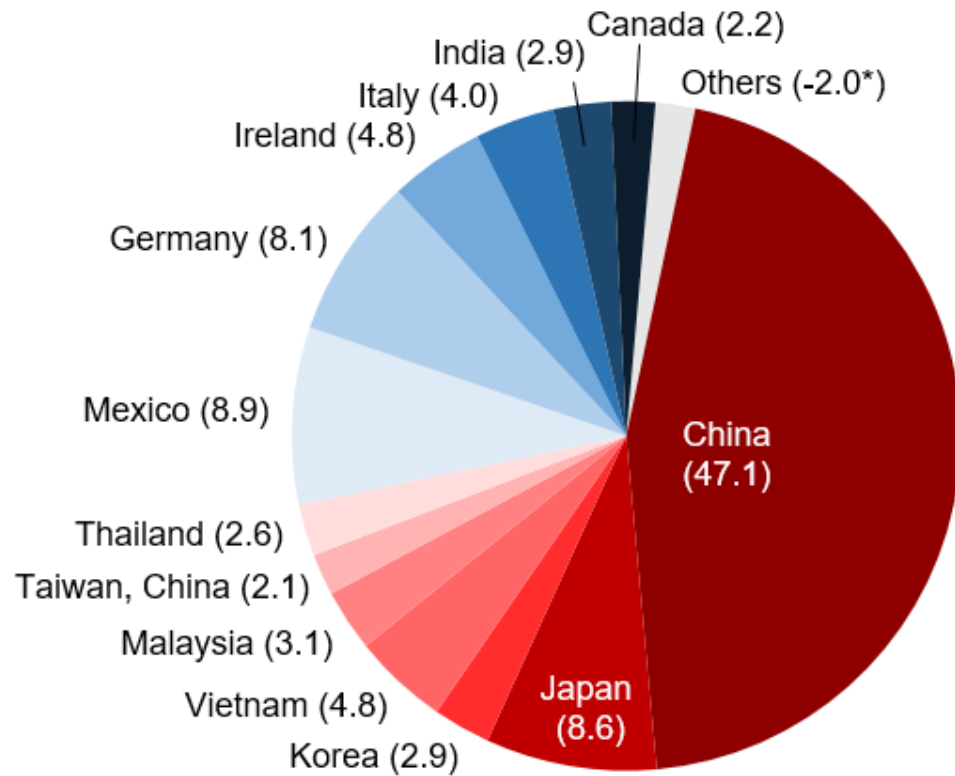
Note: Asian EMs refer to Korea, Malaysia, Thailand, Indonesia and the Philippines.

Source: Bloomberg, IMF and AMRO staff calculations

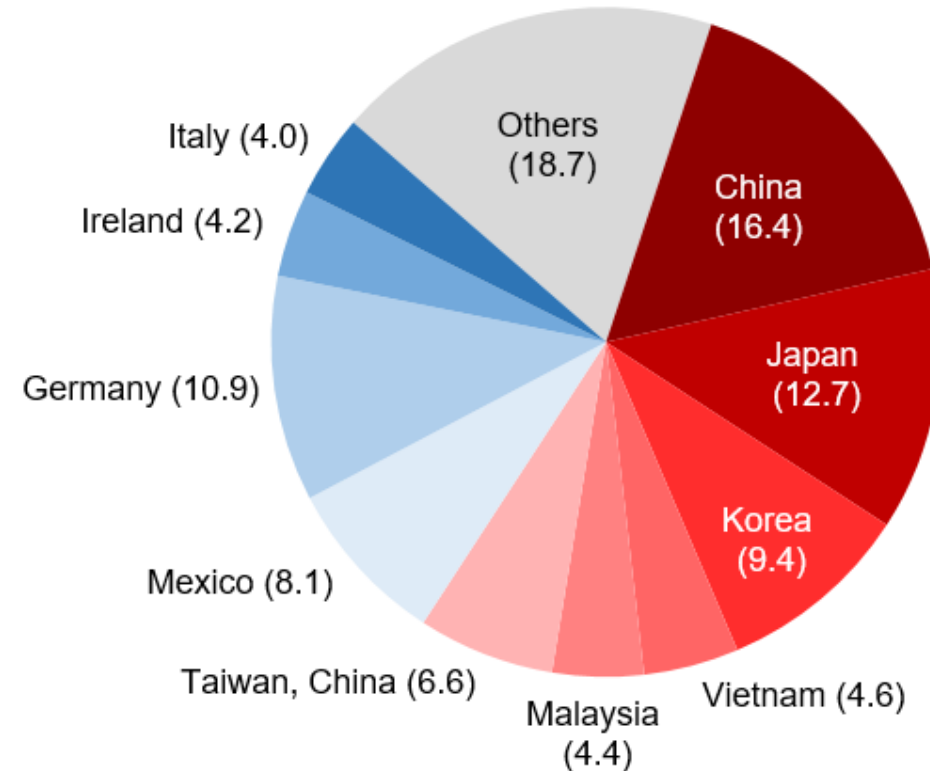
Risk Transmission: Trade Protectionism

U.S. goods trade deficit with China reflects, in part, the goods trade within the Asian supply chain

Decomposition of U.S. Goods Trade Deficit,
Non Value Added Basis, 2017 (%)



Decomposition of U.S. Goods Trade Deficit,
Value Added Basis, 2015 (%)



Note: "-" refers to U.S. trade surplus with "Others"

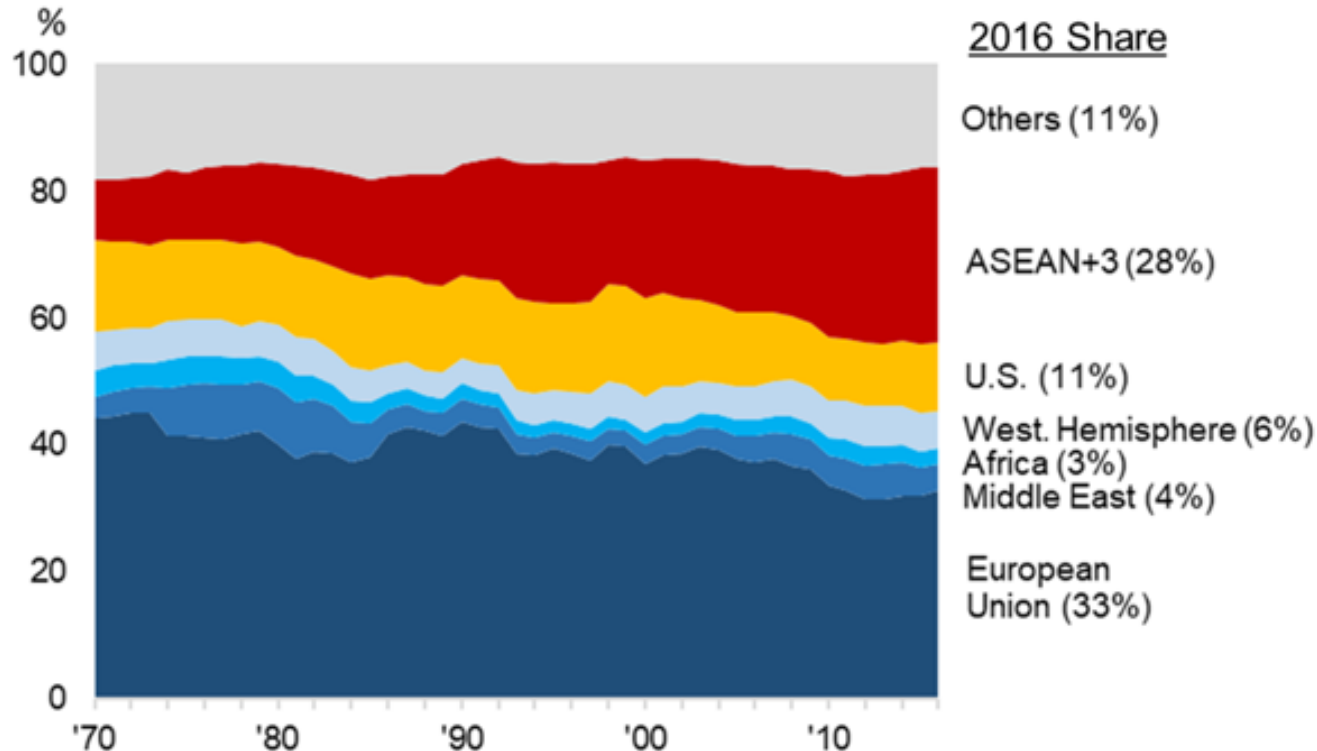
Sources: U.S. Census Bureau, Deutsche Bank, based on data from China Customs, IMF and WIND

Mitigation of impact by growing intra-regional trade

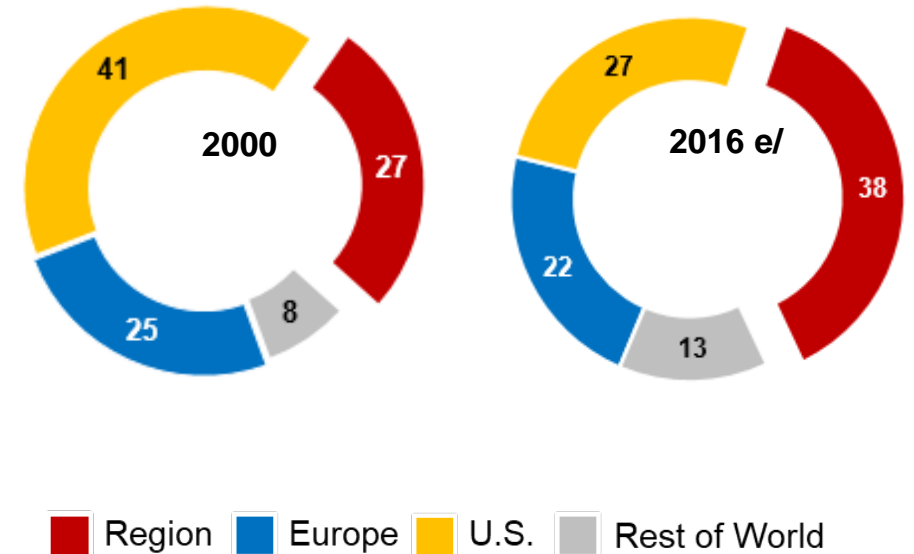
ASEAN+3's share in global trade continues to expand, accounting for close to 30%...

... and the region has become an important source of final demand

ASEAN+3's Trade
as % Share of Global Trade

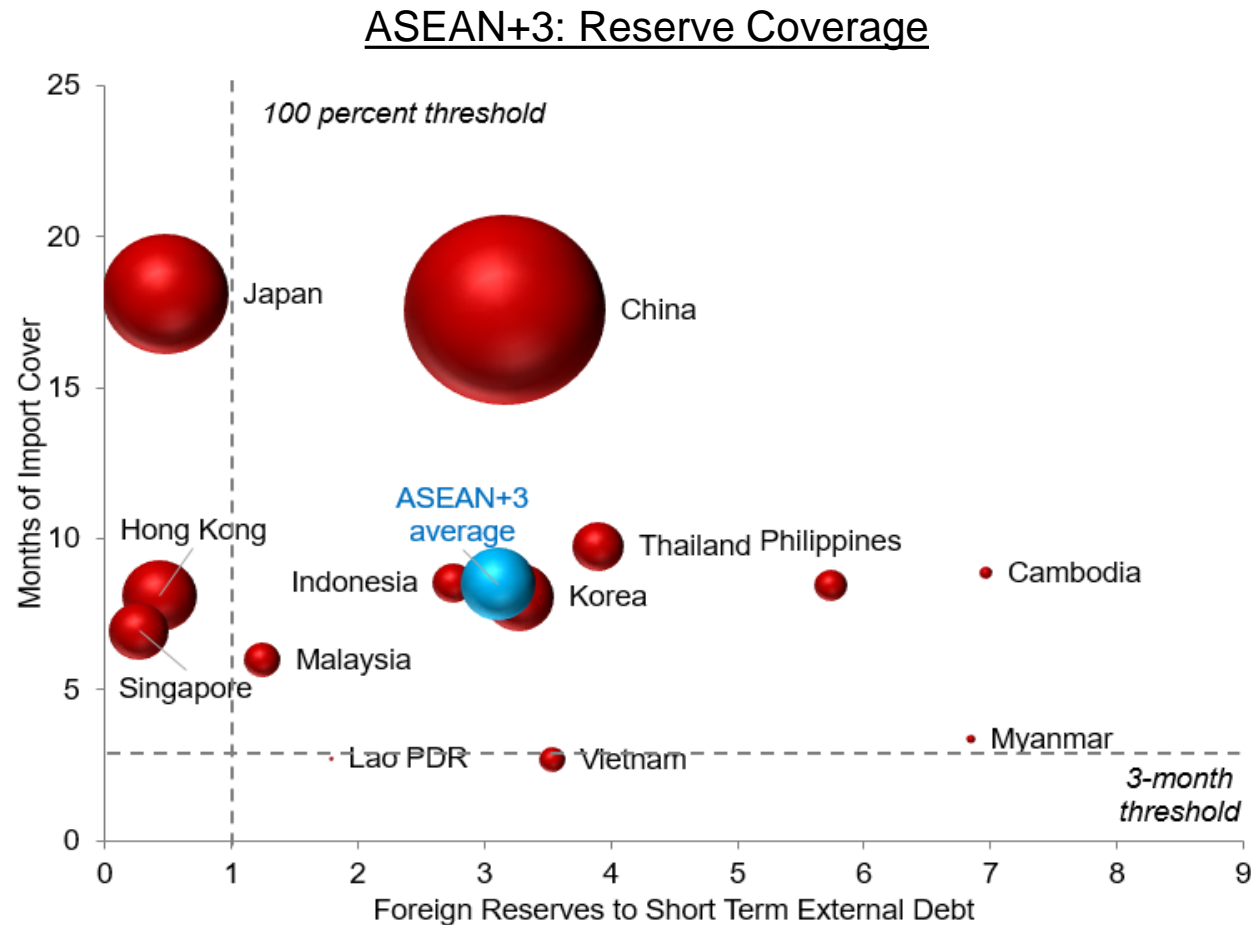


Regional Value Added Exports
(% Share By Major Destinations)



Buffers and Policy Space

Foreign reserves remain adequate by metrics of import & short term external debt cover



Notes: The size of the bubbles show the relative amounts of foreign reserves size across countries. Data on import cover are as of Dec 2017, while data for short-term external debt cover are as of Sep 2017. Brunei data is not shown, as there is no data on short-term external debt.

Sources: National Authorities, IMF, World Bank, AMRO staff calculations.

Risks in China

Overall risks to growth and macroeconomic stability have diminished for the near-term.

Development of Risks in China

Risks		Likelihood			Potential Impact in 2018
		2016	2017	2018	
Domestic	Economic hard landing	Low to Medium Risk	Low Risk	Low Risk	High
	High property prices	High Risk	Medium Risk	Medium Risk	Medium
	Continued overcapacity	Medium Risk	Low to Medium Risk	Low to Medium Risk	Small
	Slowing SOE reforms	Medium Risk	Low to Medium Risk	Low to Medium Risk	Medium
	High corporate debt	High Risk	Medium Risk	Low to Medium Risk	Medium
	Rising local government debt	Medium Risk	Low to Medium Risk	Low to Medium Risk	Small
	Risks in the financial markets	High Risk	Medium Risk	Low to Medium Risk	Medium
External	Trade tension	Low to Medium Risk	Medium Risk	Medium Risk	Small to medium
	Capital outflow pressures	Medium Risk	Low to Medium Risk	Low to Medium Risk	Medium
	Geopolitical risks	Medium Risk	Medium Risk	Medium Risk	Small

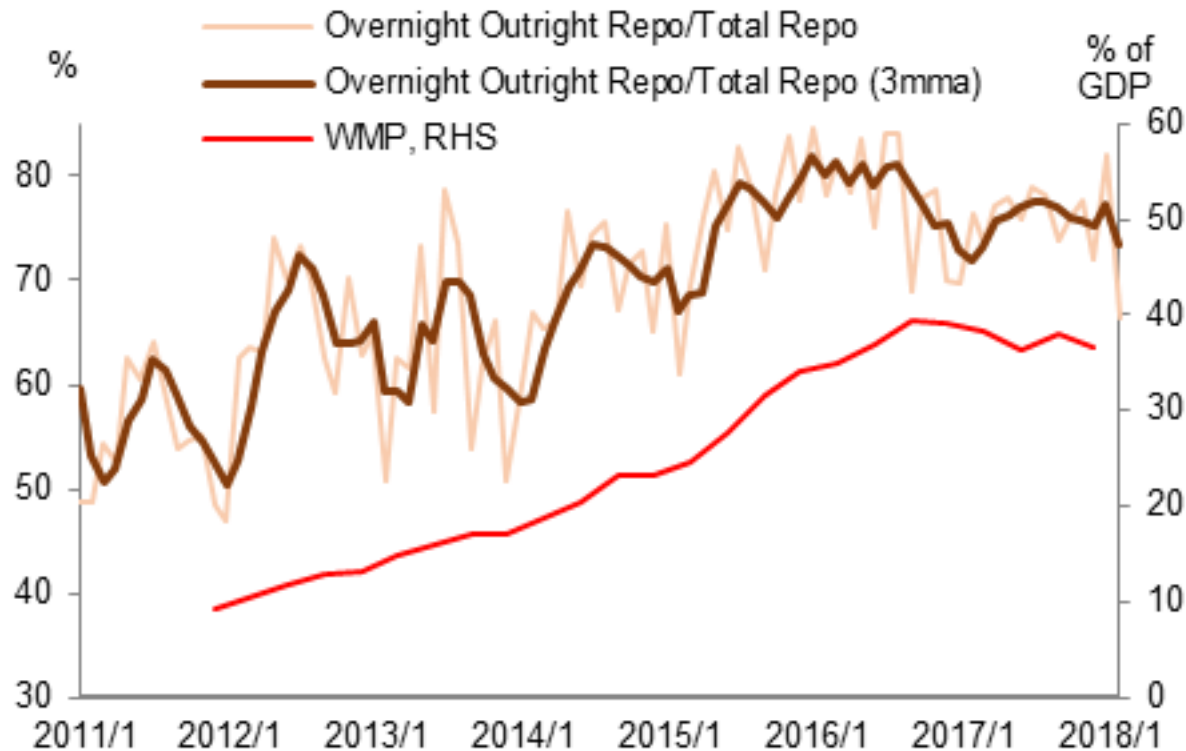
Low Risk	Low to Medium Risk	Medium Risk	High Risk
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Risks in China

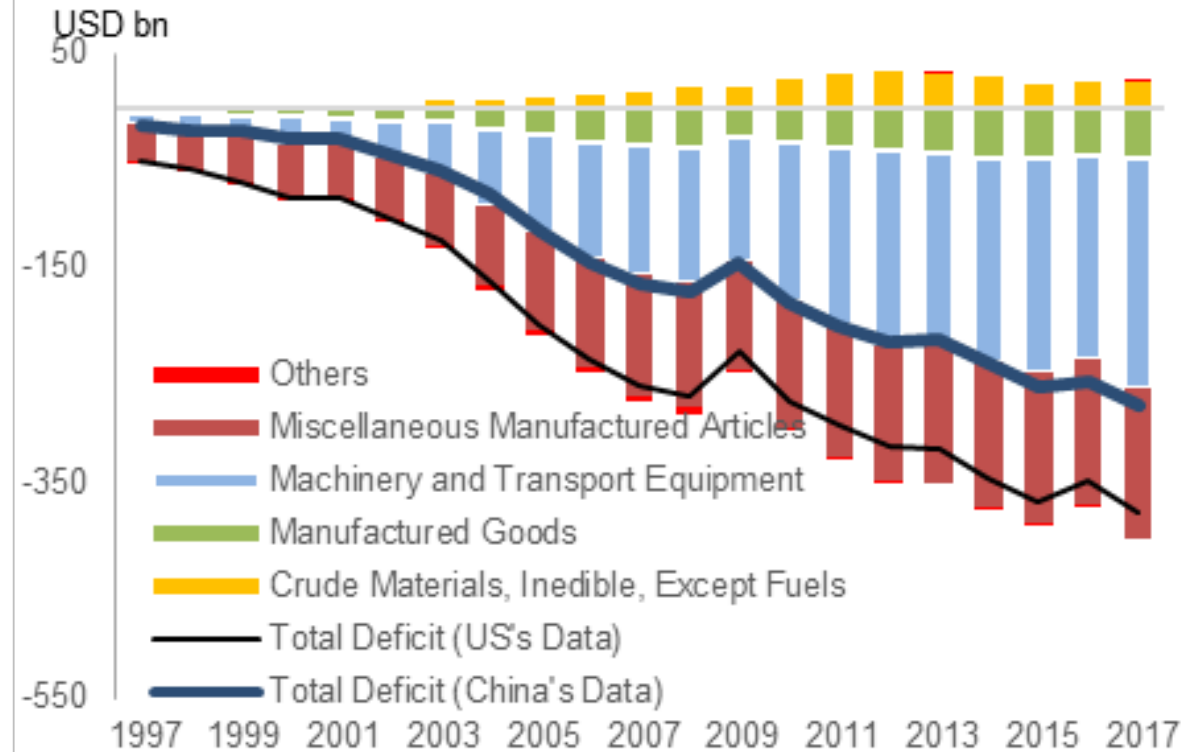
The leverage level in the financial sectors is still high but it has started to decline due to strengthened policy efforts.

The US registered a higher goods deficit with China in 2017 compared to 2016. The trade tension may increase and pose further risks to Chinese exports.

Outright Repo v Total Repo and WMP



US Goods Trade Deficit with China

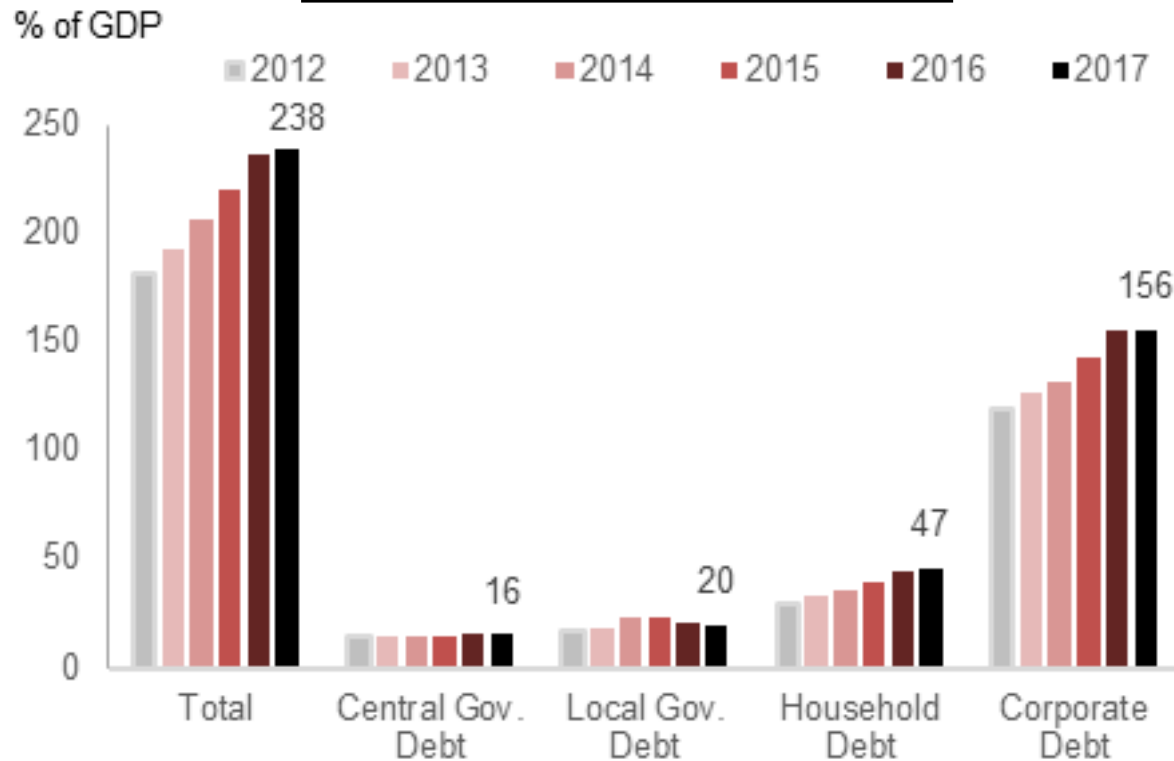


Risks in China

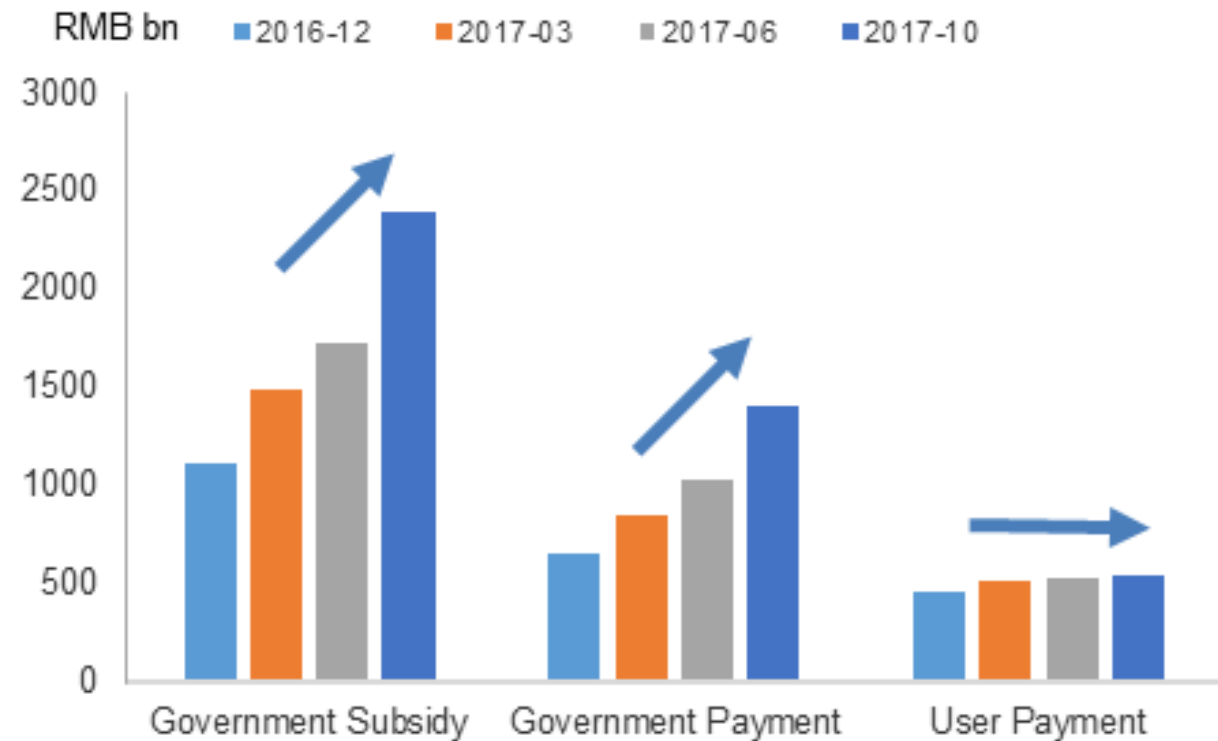
Although total debt is still rising, its increase has moderated in 2017.

Government debt/GDP ratio decelerated compared to household and corporate debt but risks associated with implicit liabilities including those partly associated with PPP remain.

China's Total Debt Relative to GDP



Outstanding Executed PPP by Incomes Sources

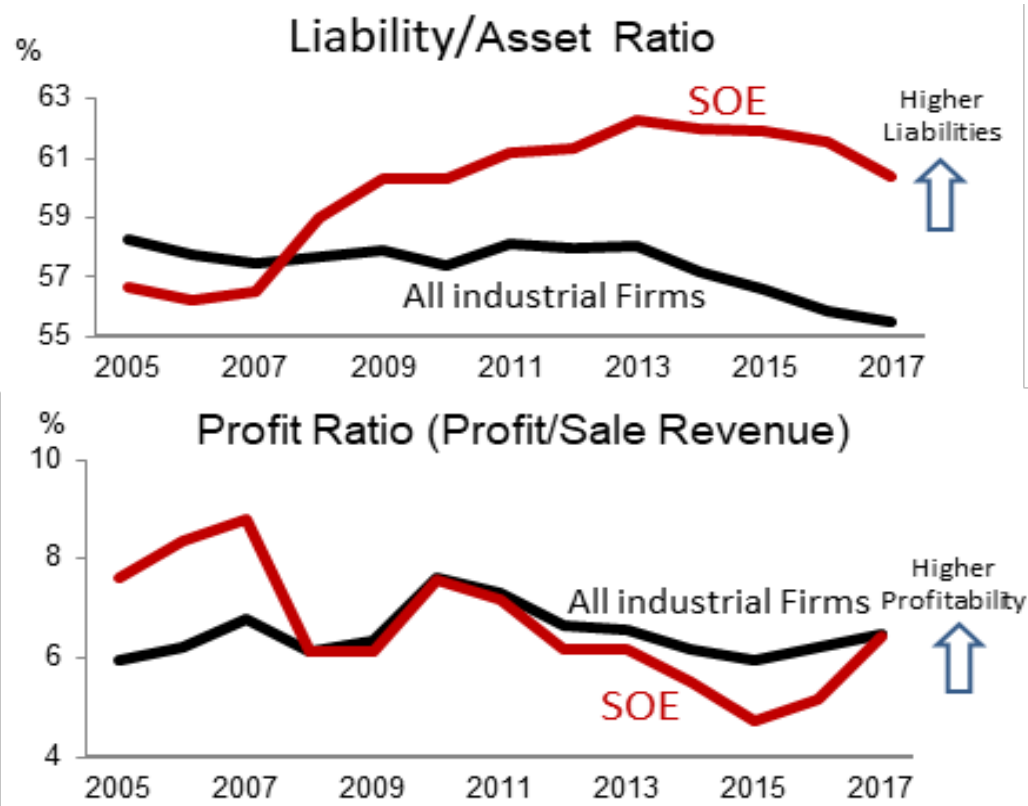


Risks in China

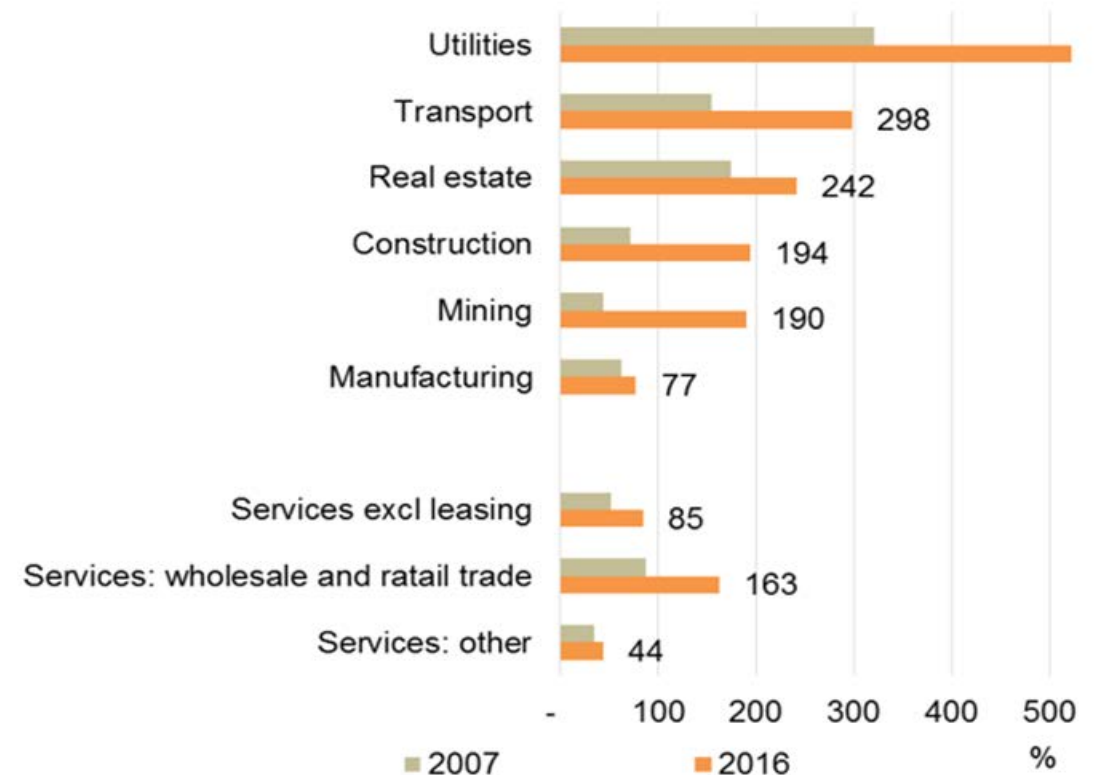
Further efforts are needed to transform SOEs into more market-oriented entities.

To curb high corporate debt further, comprehensive efforts are needed to manage vulnerable sectors and mitigate financial risks.

China SOEs' Financial Indicators



Debt-to-Value Added Ratio by Sector



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Macroeconomic Prospects and Challenges

2

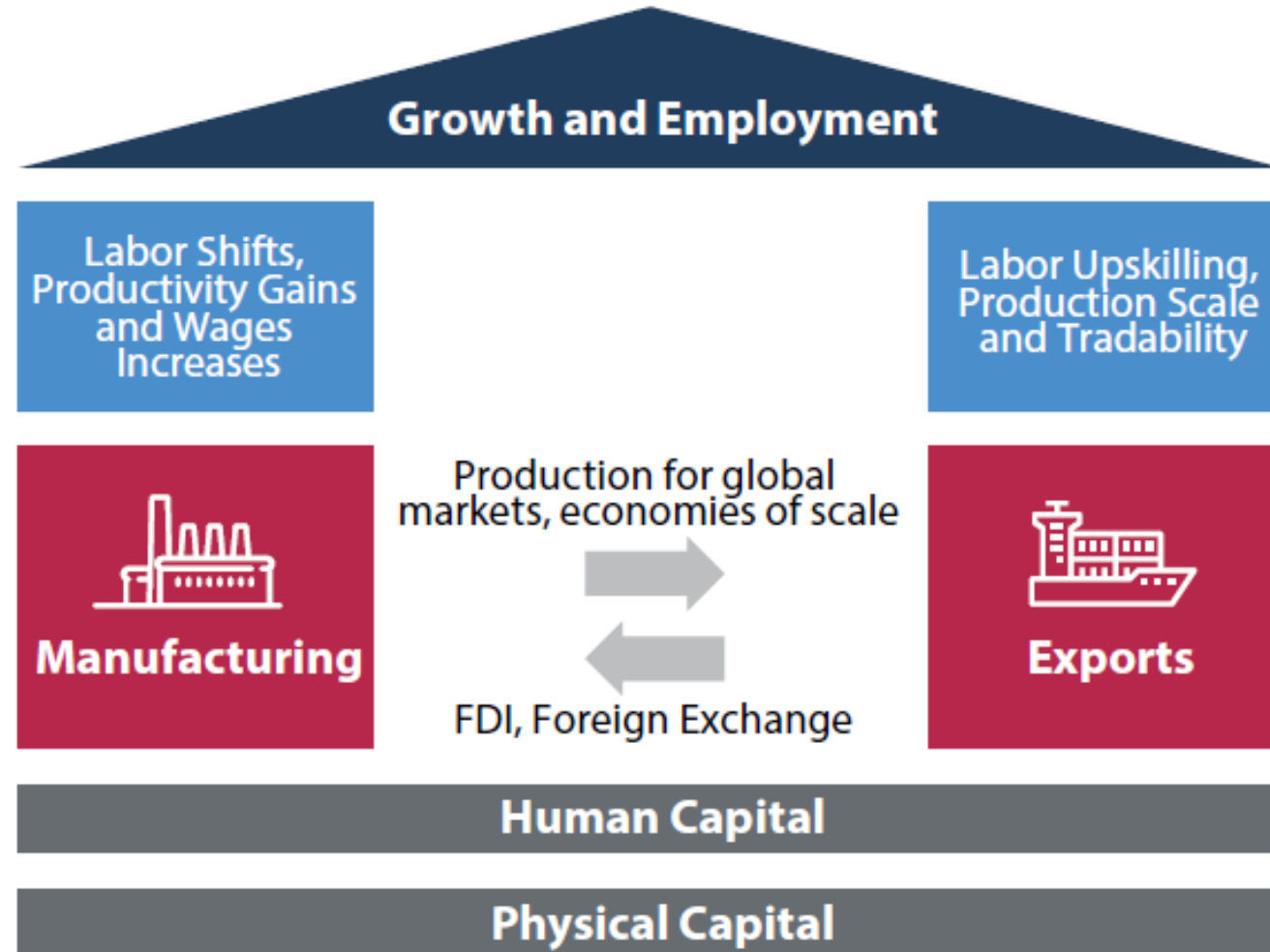
Theme: Resilience and Growth in a Changing World

How can the region maintain resilience and growth given that global forces are testing economies' "manufacturing for exports" growth strategy?

- Growth catch-up through export-led strategy: experience of three "waves" of countries
- Changes in cross-border production, trade and technology are challenging growth and jobs
- Services is increasingly key as a growth driver in itself and as enabler of manufacturing
- Policy: capacity upgrading, economic diversification, and role of regional integration

“Manufacturing for Exports” Strategy

Conventional “manufacturing for exports” strategy has driven virtually all ASEAN+3 economies’ growth convergence.



“Manufacturing for Exports” Strategy

	Reinforcing Factors: Earlier Years	Challenges: Current and Prospective
GVCs	<ul style="list-style-type: none"> • Integrated region becomes more competitive • Eased entry into global trade for developing ASEAN economies 	<ul style="list-style-type: none"> • Plateaued due to changes in technology and some countries’ stronger domestic production • Amplified transmission of shocks through whole supply chain across the region
Technology	<ul style="list-style-type: none"> • Enabler for services sector 	<ul style="list-style-type: none"> • Reduced demand for labor, particularly low-skilled labor in manufacturing (automotive versus textile sector)
Services	<ul style="list-style-type: none"> • Becoming tradable • Matching supply with latent demand 	<ul style="list-style-type: none"> • Productivity, wages and job quality still lagging in several sub-segments

Regional Integration

- Growing intra-regional demand for goods and services (including fast-growing sectors like tourism)
- Ample resources and knowhow, including Belt and Road Initiative (BRI)

GVCs: Contribution to Growth and Development

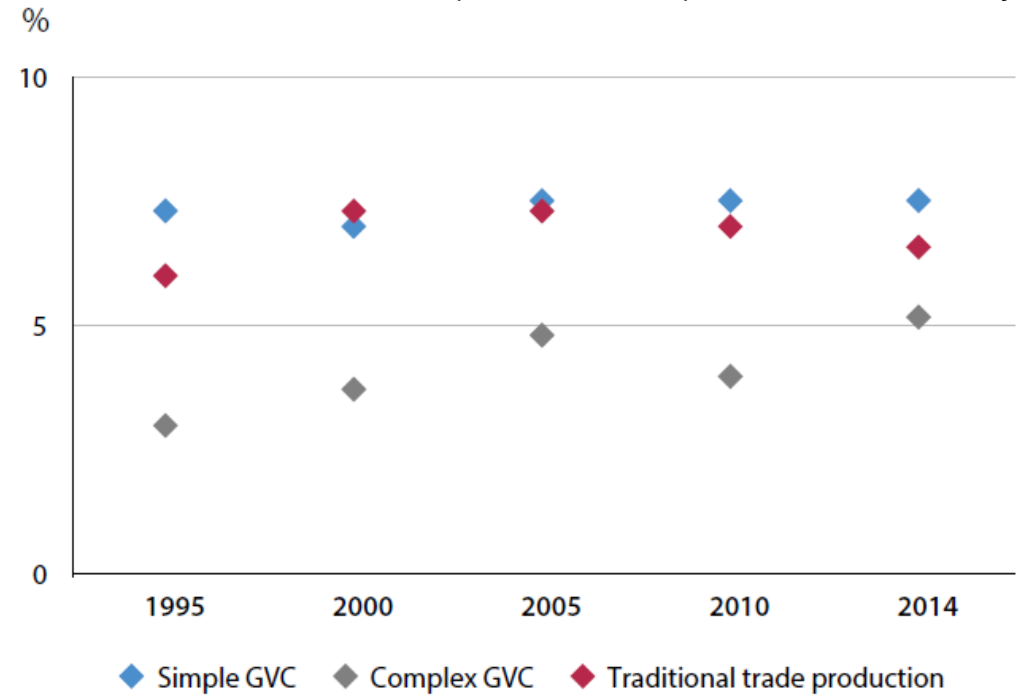
GVCs' contribution to global growth and EMEs' development is greater than implied by its share of world trade. China has been a central part of the story, benefiting the whole ASEAN+3 region.

Global Trade Growth and GDP Growth

Average growth, % yoy



Share of Global Production (in VA Terms) Accounted for by GVCs

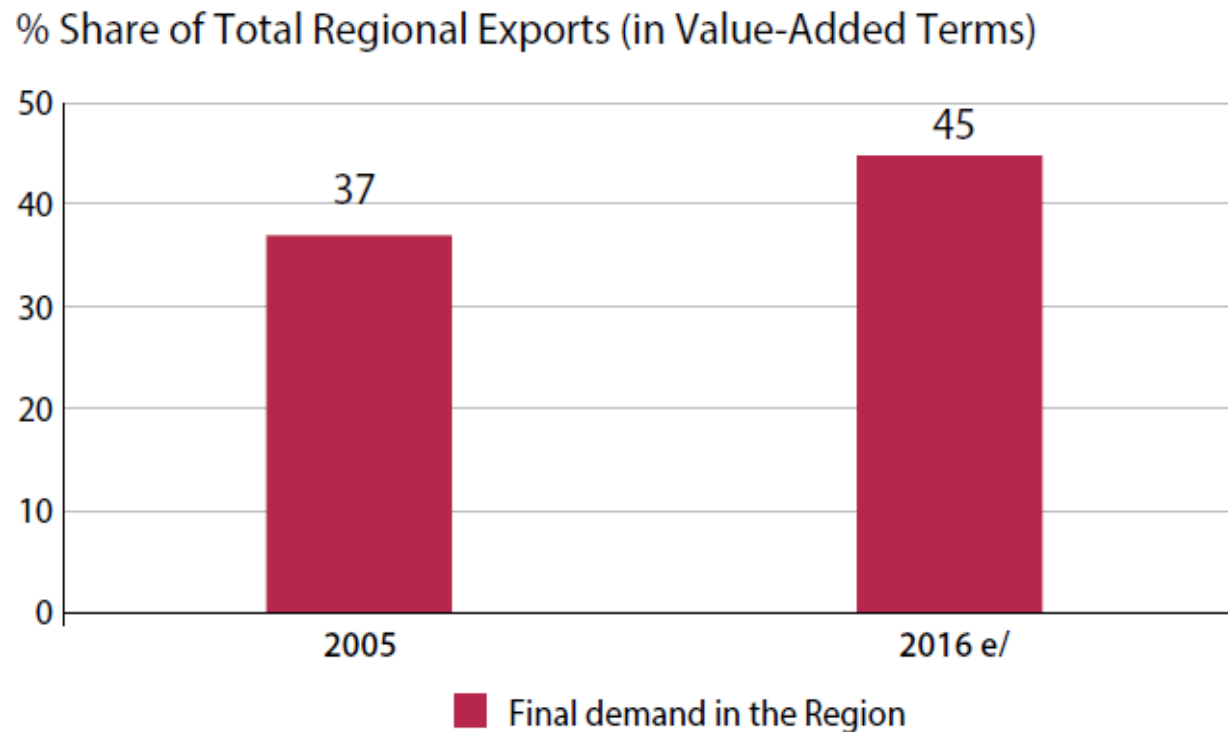


Note: Simple GVCs involve domestic VA crossing national borders for production only once, while complex GVCs involve domestic VA crossing the border at least twice and are used by the partner country to produce intermediate or final product exports either for re-export to the home country or for re-export to other countries. The remainder is VA that does not involve trade and is accounted for by pure domestic production.

GVCs: Contribution to Growth and Development

With the maturing of GVCs in recent years, ASEAN+3 is now leveraging more on intra-regional final demand to generate more growth from within itself as an economic bloc. China underpins much of this demand, helping the region to gain further mileage from manufacture-for-exports.

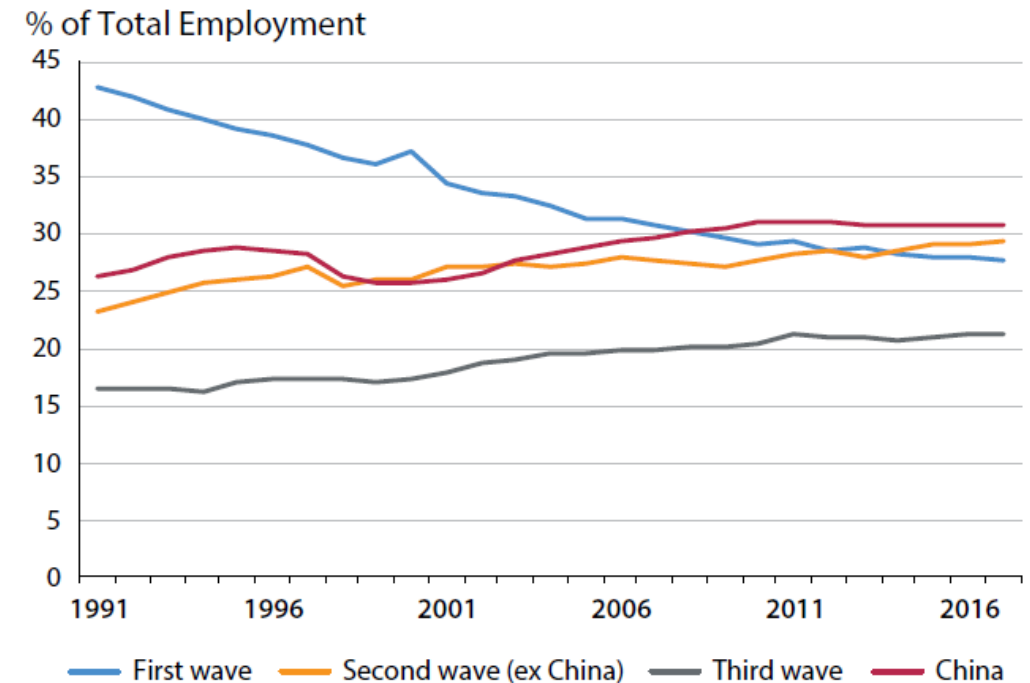
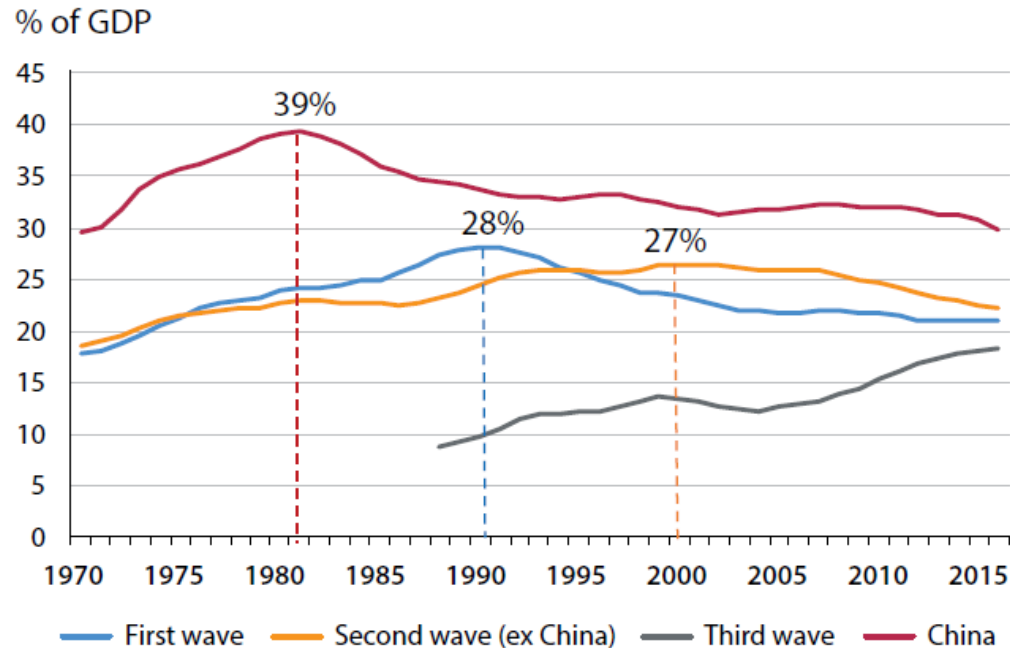
Share of Total Regional VA Exports Accounted for by Regional Final Demand



Technology: Diminution of Manufacturing for Job Creation

Looking ahead, technological advancements over the past two decades have already made manufacturing less powerful as a generator of both growth and employment than it used to be. And China's success as a manufacturing powerhouse is unlikely to be replicated fully.

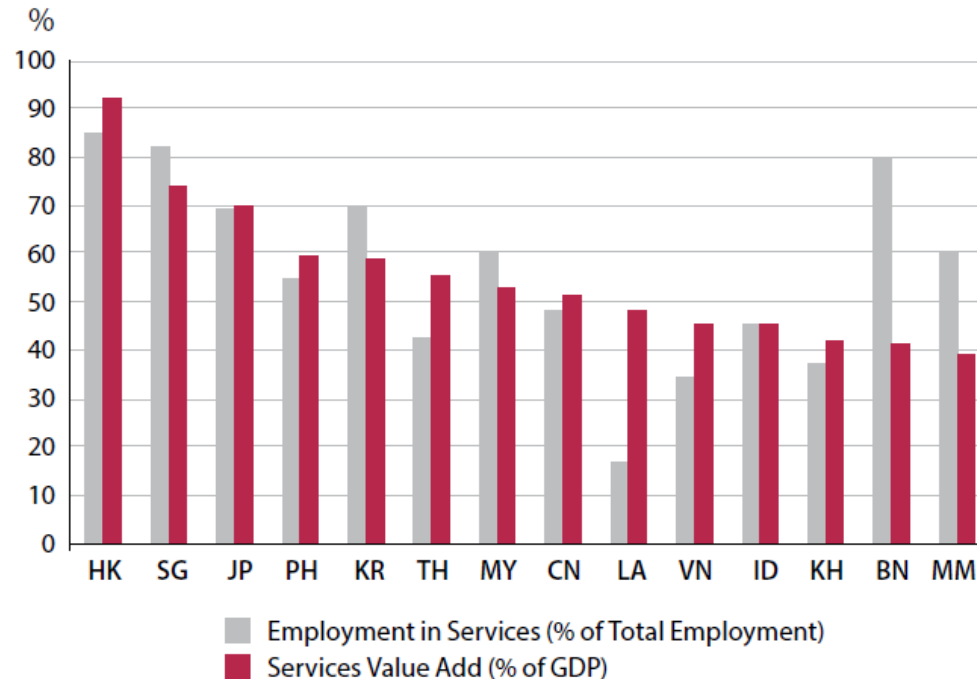
Share of GDP and Share of Employment Accounted for by Manufacturing



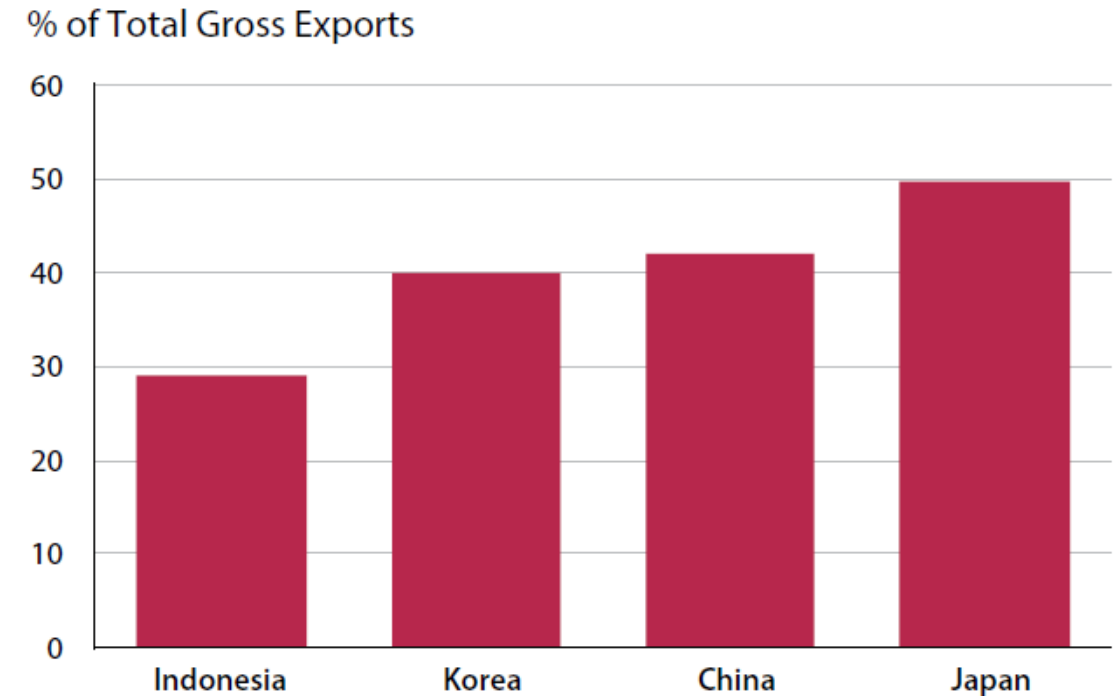
Services: Increasingly Key Driver Amid Rapid Technology Shifts

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' Share of GDP and Employment: ASEAN+3 Economies



Services VA Content of Gross Exports: Selected ASEAN+3 Countries

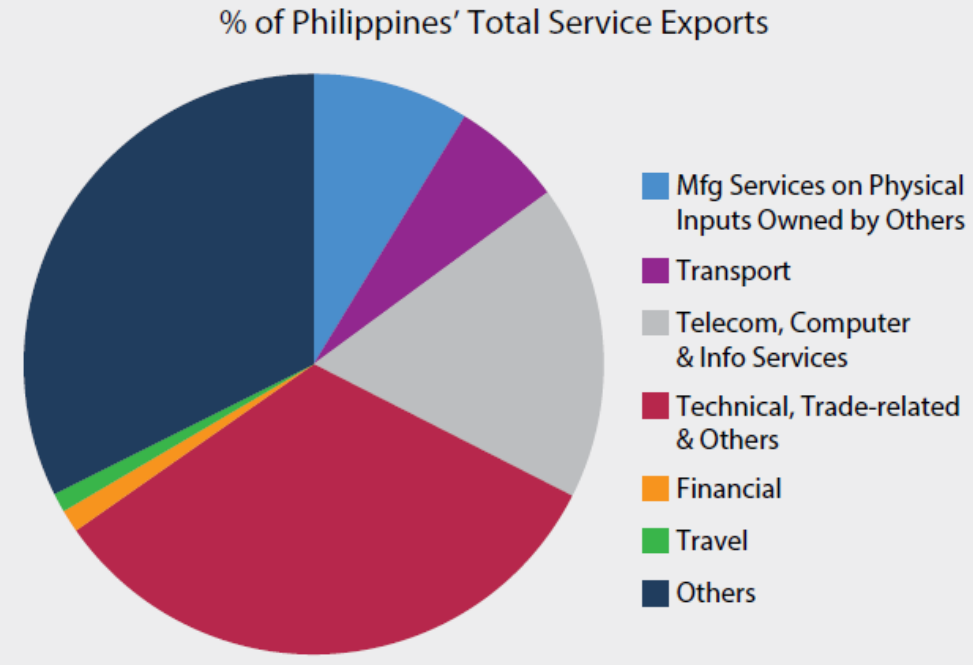


Note: Data is latest available (2011)

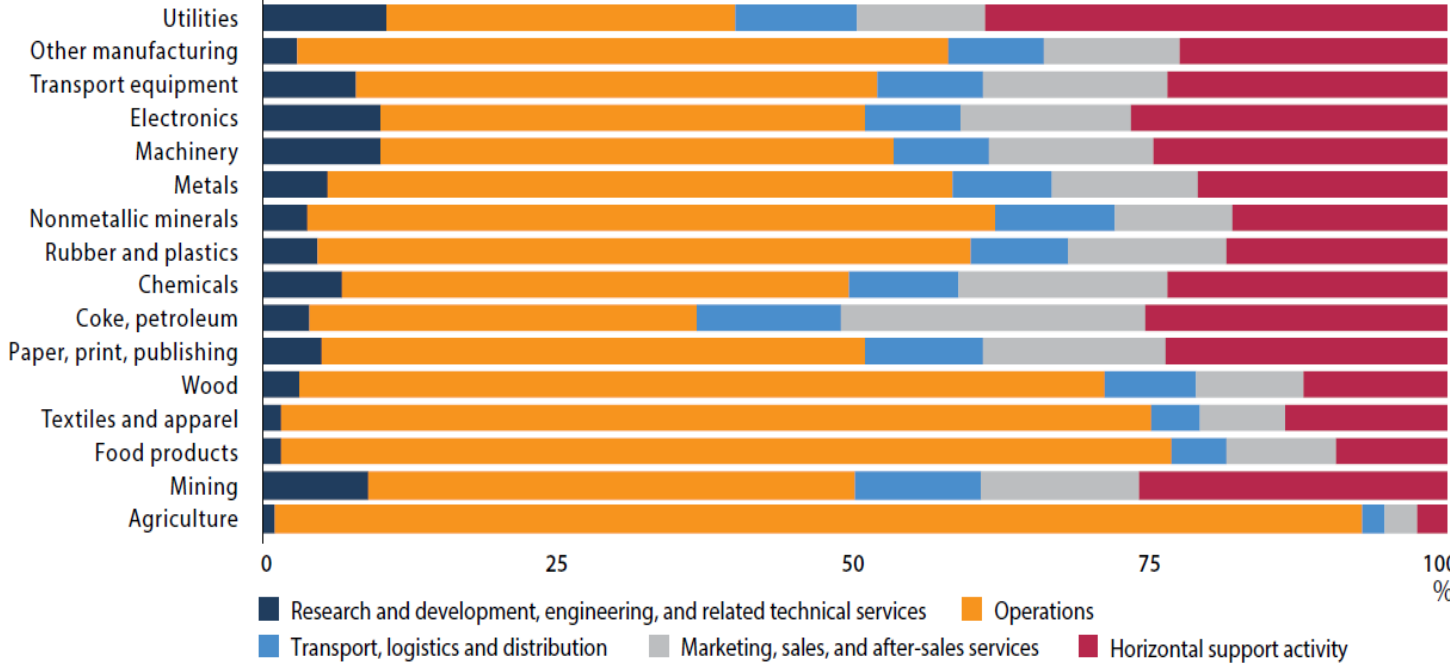
Services: Productivity and Growth Engine in Digitalized Economy

Commoditization and Uberization (Grabbification?!) have raised productivity in some segments of the services sector, but upskilling is needed for future competitiveness – as the Philippines’ experience with BPO and the embodiment of services jobs in the manufacturing sector attest to.

Breakdown of the Philippines’ Services Exports



Jobs Embodied in Manufacturing Exports



Source: National authority

Source: Mirodout (2016)

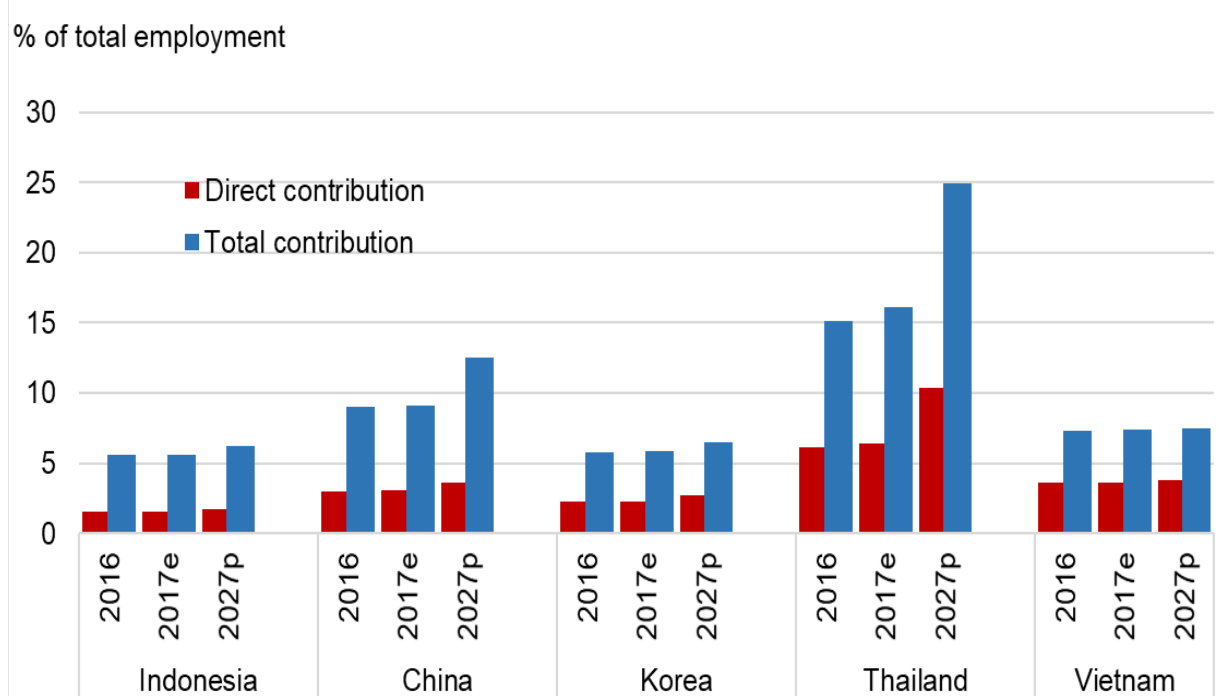
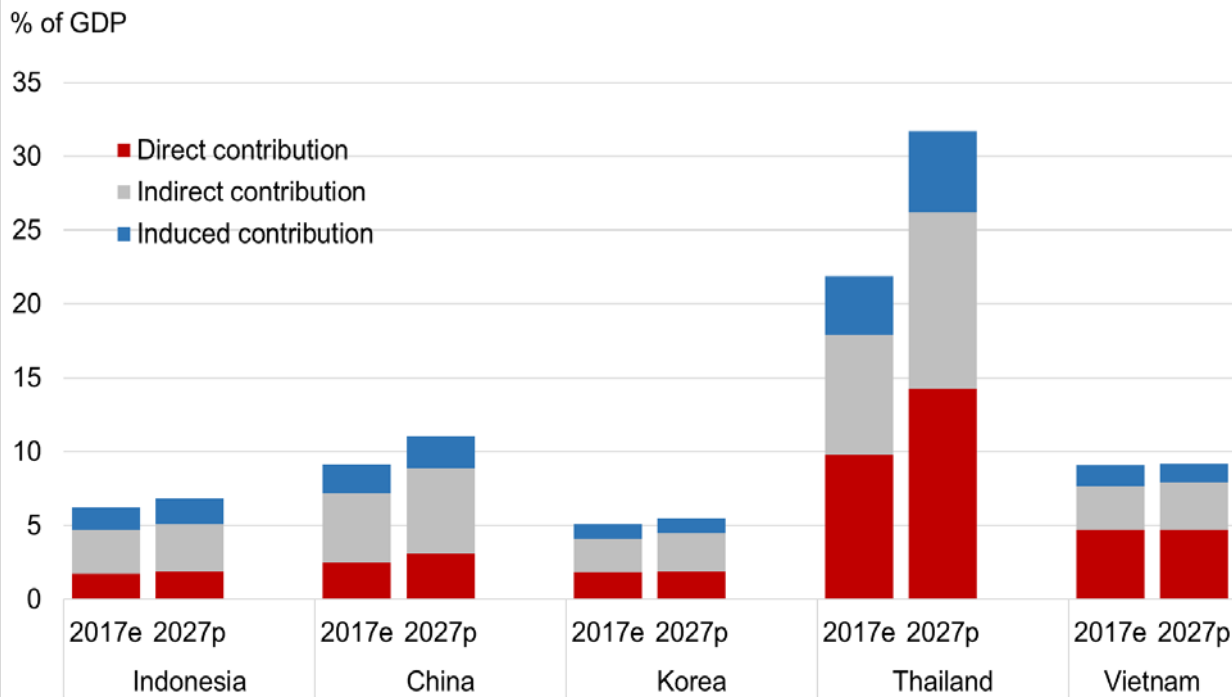
Services: Tourism Provides a Glimpse of Challenges and Potential



Despite lagging behind “first wave” economies in infrastructure and connectivity, “second wave” economies have done well in using the travel and tourism sector for spurring growth. China will be a huge source of demand for the foreseeable future.

Travel and Tourism Sector’s Contribution to GDP

Travel and Tourism Sector’s Contribution to Employment

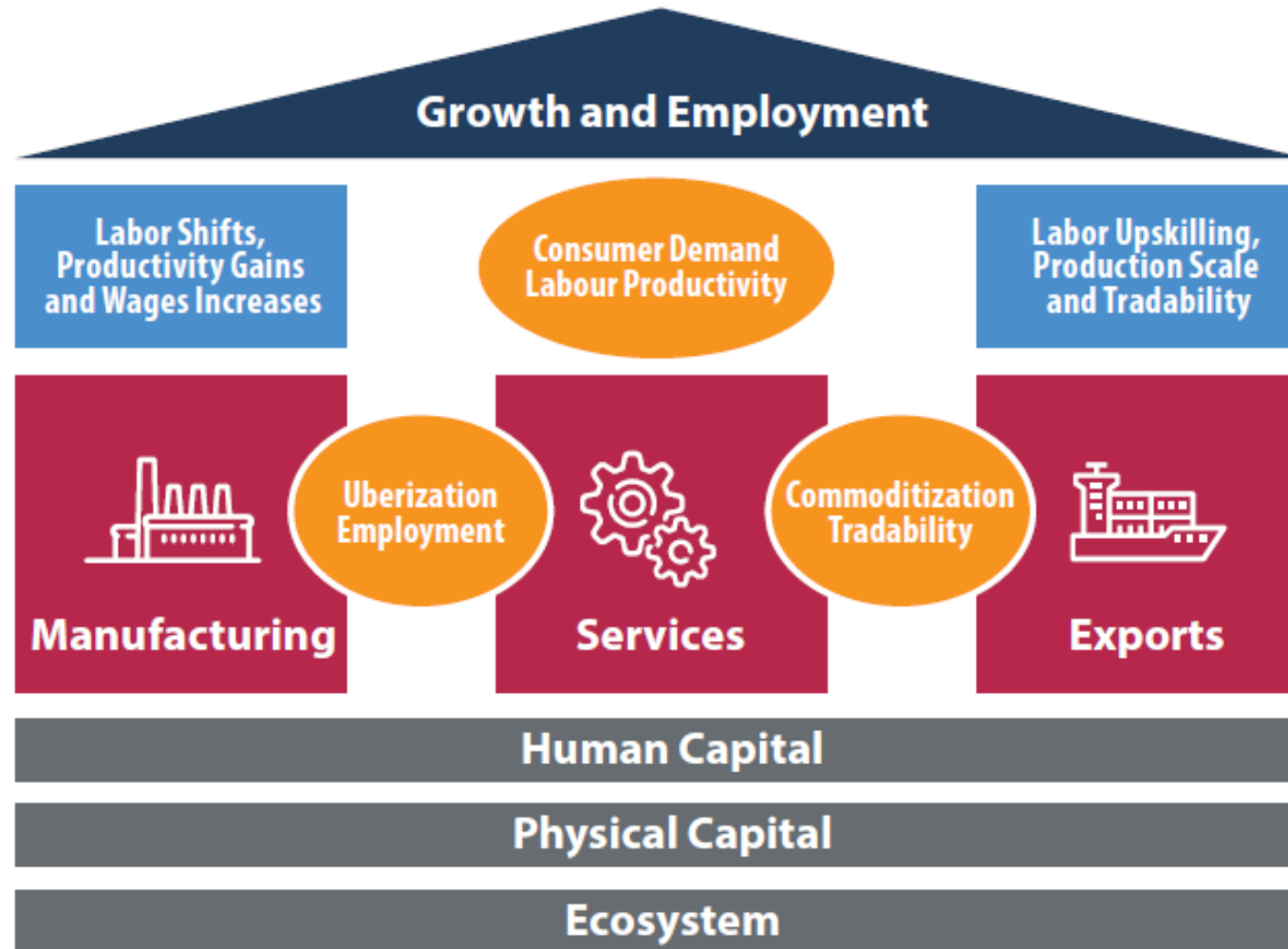


Source: World Travel and Tourism Council (2017)

Source: World Travel and Tourism Council (2017)

An Augmented “Manufacturing for Exports” Strategy?

Augmentation of growth model is needed: involves building resilience by having multiple engines of growth, including through the services sector.



Resilience: having multiple pillars of growth (manufacturing + services) while being able to meet challenges of technology and changes to trade and production.

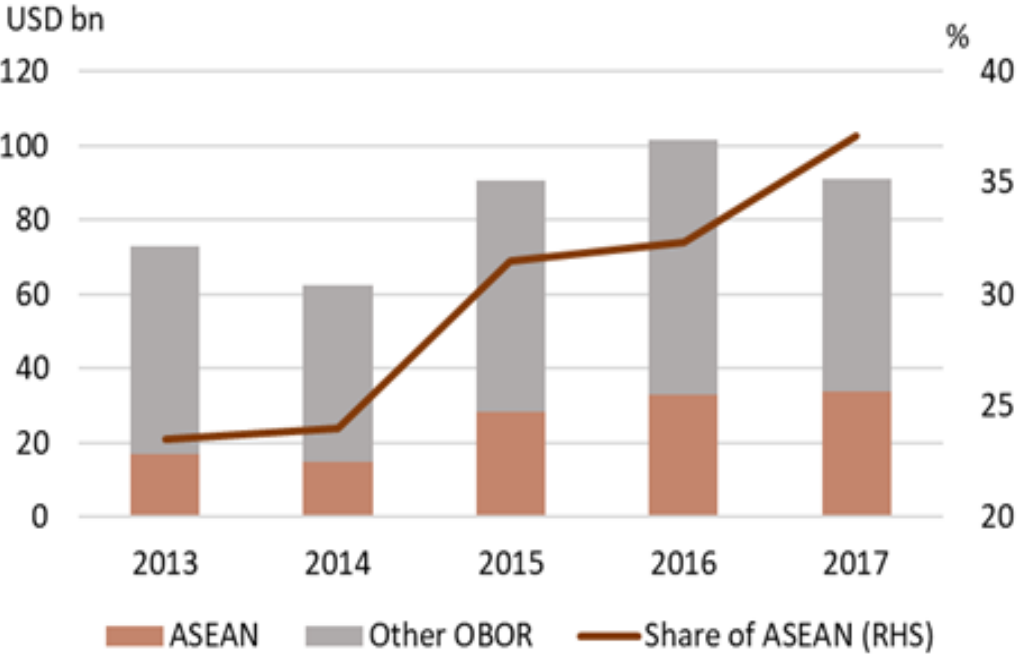
Comprehensive policy actions needed to harness benefits of intra-regional demand, technology and the services sector:

- ***Improve connectivity***: through investment in domestic and intra-regional infrastructure, coupled with trade facilitation policies – to maximize benefits of GVCs, spur tourism in the region, and enhance the region's overall competitiveness
- ***Address challenge posed by technology and automation to low-skilled unemployment***: through comprehensive policy mix including labor force upskilling, immigration to leverage on mobility of skilled labor across ASEAN+3, and education policies.
- ***Exploit opportunities and efficiency brought by technology to the services sector***: through policies to boost innovation in services ranging from BPO to tourism.

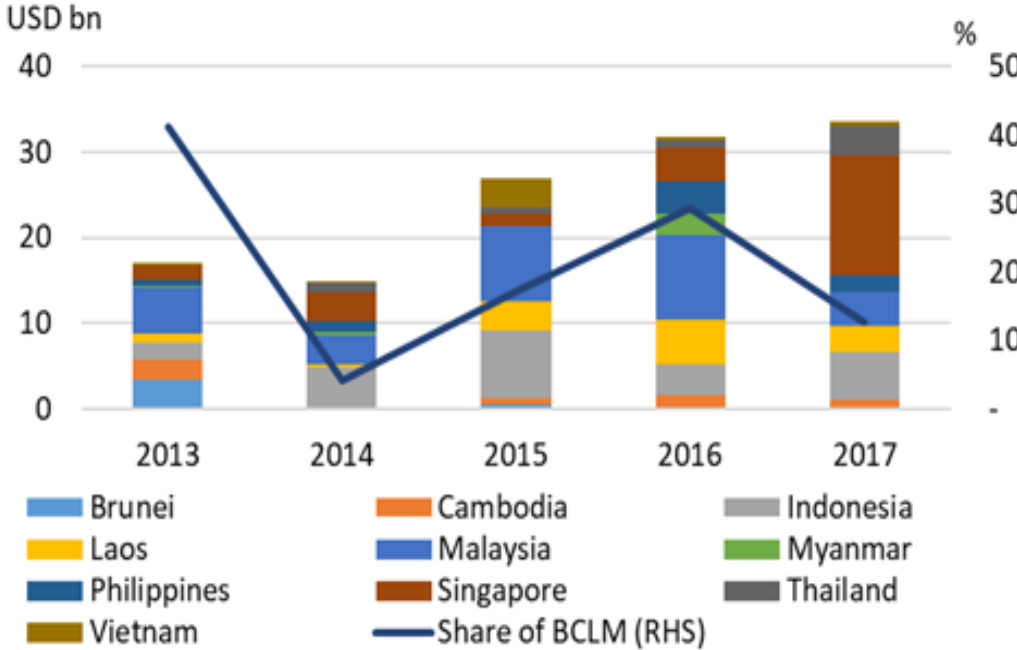
China's Outward Investment: A Timely Boost for ASEAN

China's outward direct investment (ODI) in the OBOR region has taken off, with much of it channeled to ASEAN countries.

China's New Investment in OBOR Region



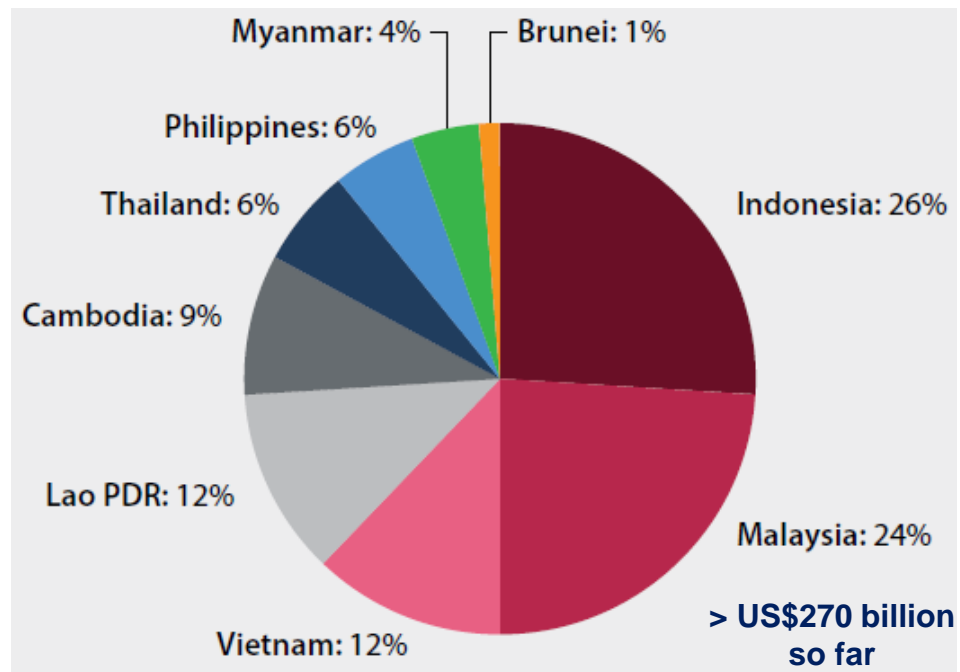
China's New Investment in ASEAN: by Country



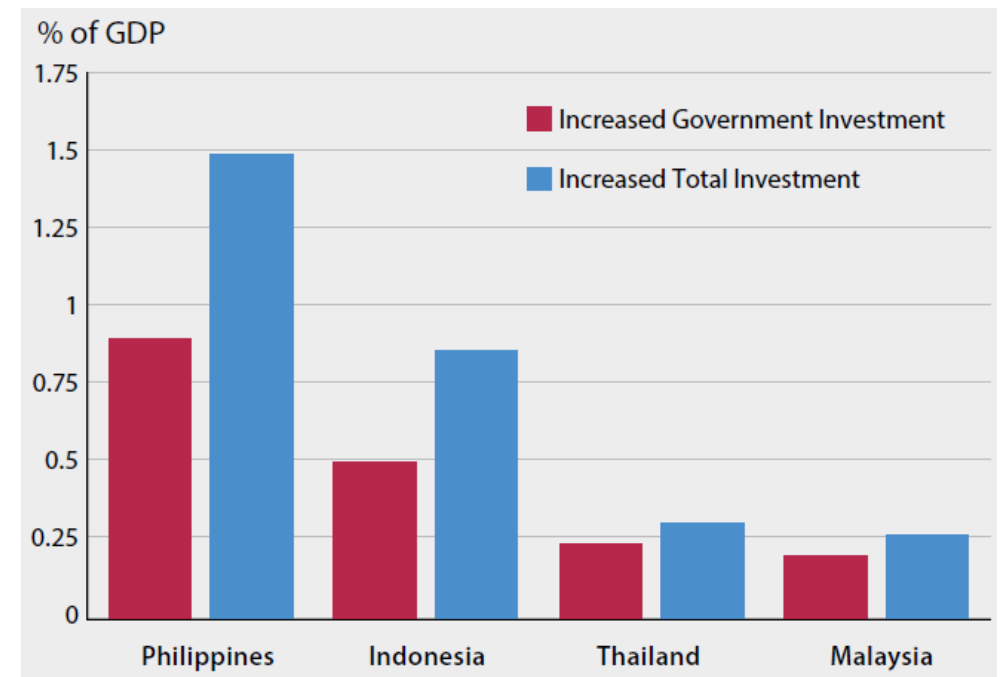
Belt and Road: Capturing the Imagination, Driving Integration

The BRI, unveiled by President Xi in 2013, is a major initiative by China aimed at strengthening intra-regional integration between China and countries in Eurasia and beyond. Based on extensive consultation. Strategic focus. Benefits entire region. Strong crowding-in effects.

Distribution of Chinese Investment and Construction Contracts in ASEAN Economies (Cumulative 2010-2015, Share)



Impact of Total Investment and Crowding In of Private Investment in ASEAN=4: Change over 2019-2020



Thank You

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