

ASEAN+3 Regional Economic Outlook 2018

Theme: Resilience and Growth in A Changing World

25 May 2018, Hanoi

1

Macroeconomic Prospects and Challenges

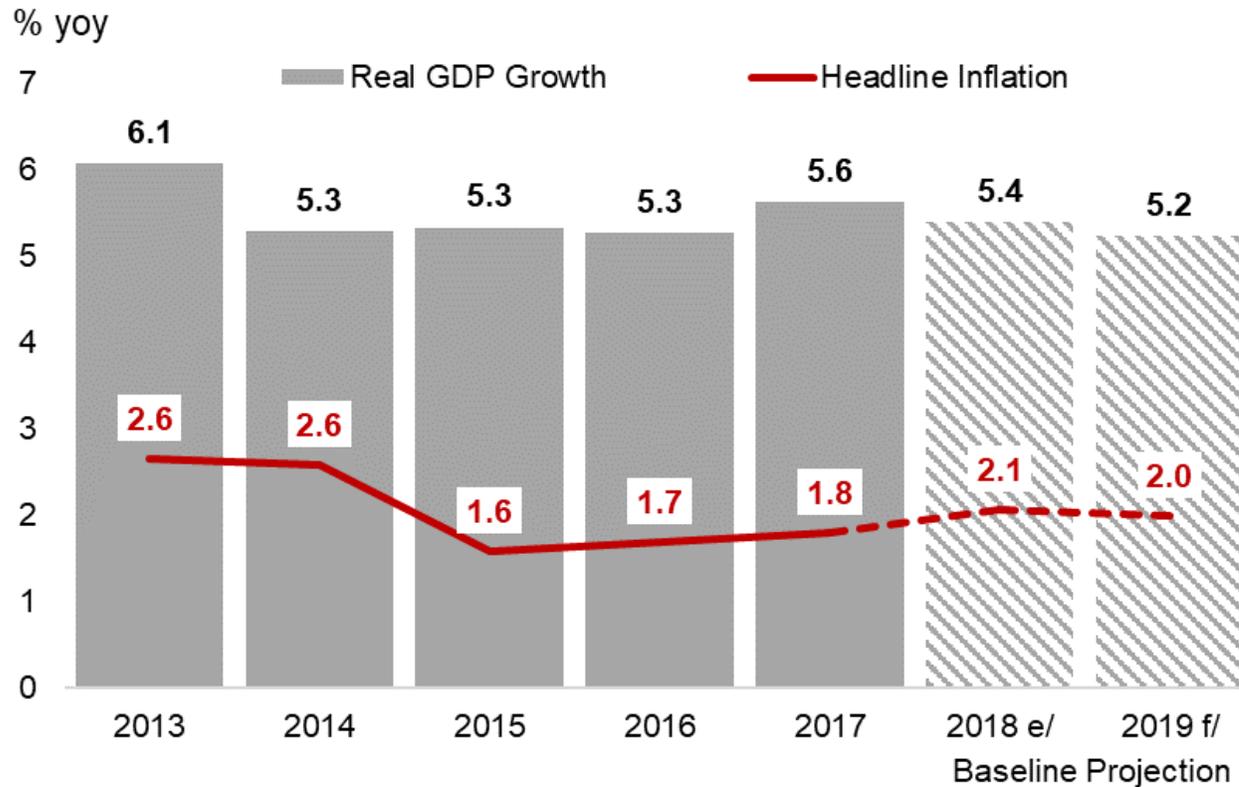
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Theme: Resilience and Growth in a Changing World

Baseline: Resilient Growth and Stable Inflation

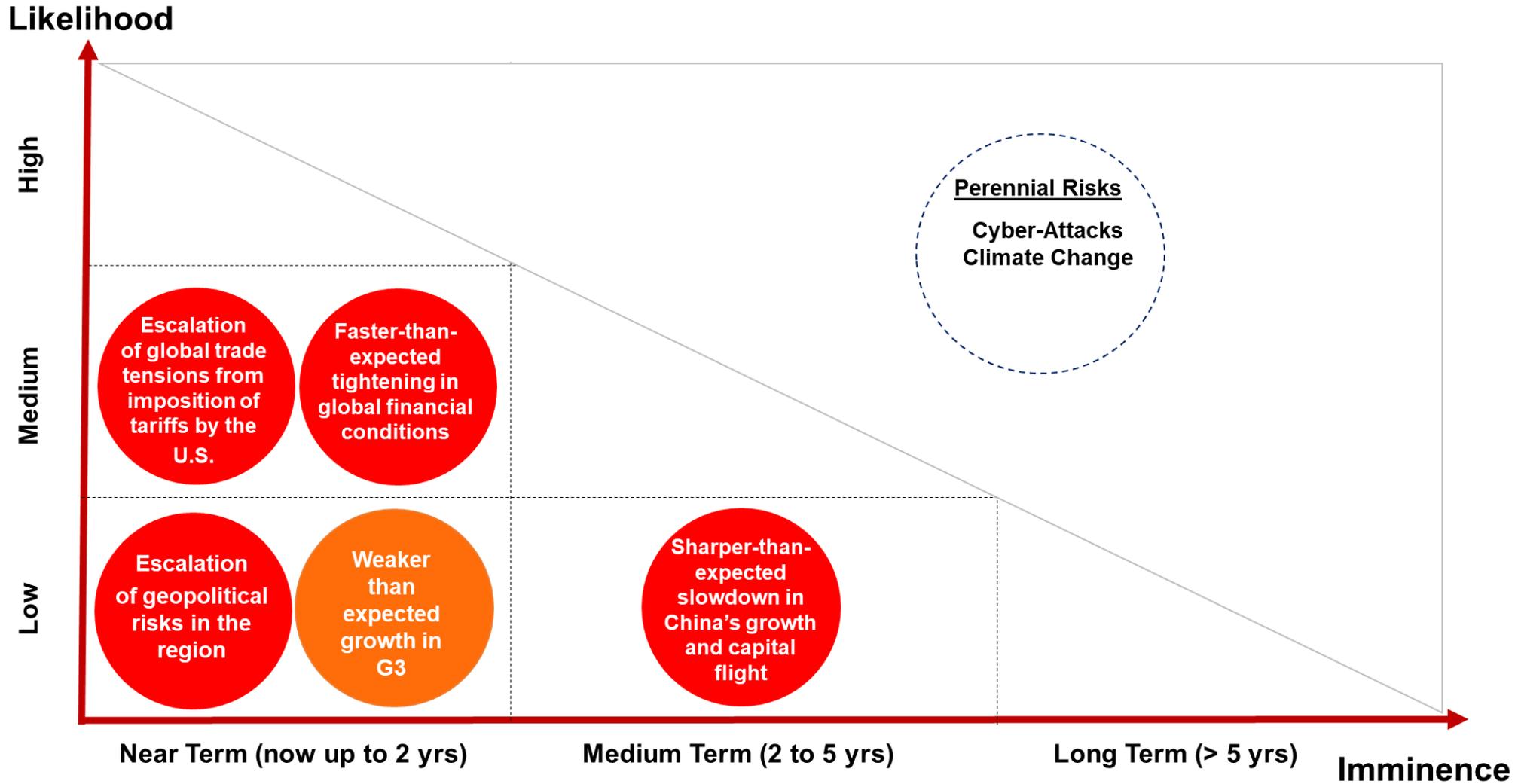
Growth in the ASEAN+3 region is resilient at above 5 percent, boosted by external demand and favourable global economic conditions, plus domestic demand.

AMRO's Baseline Growth and Inflation Projections



Real GDP growth % yoy	'17	'18 e/	'19 p/
		Latest Estimates (Mar '18)	Latest Estimates (Mar'18)
China	6.9	6.6	6.4
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

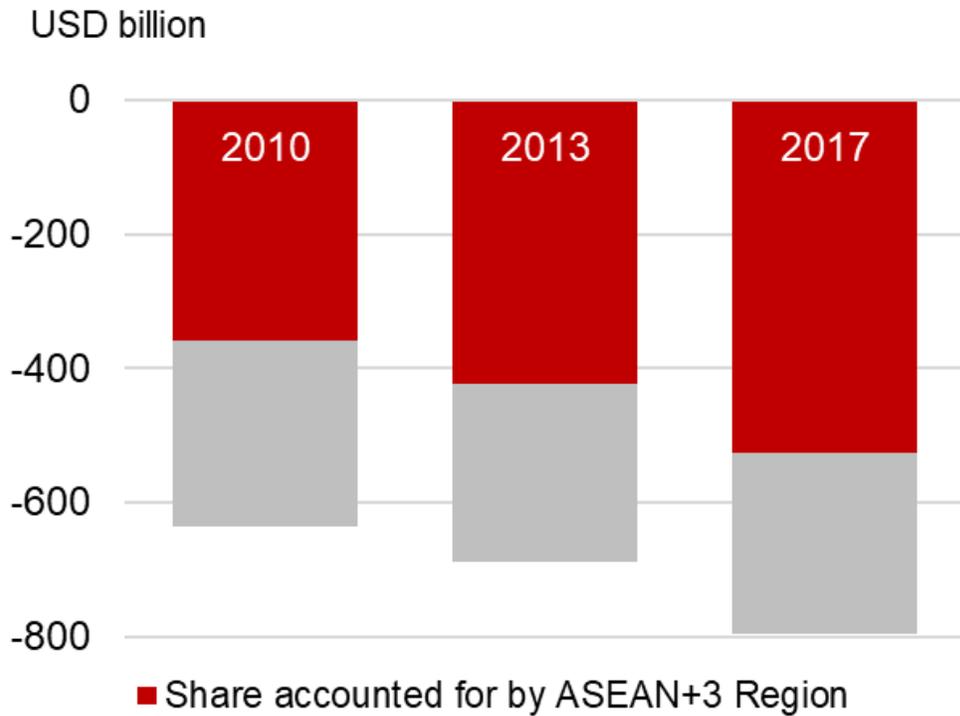
Risks confronting the region are mainly external.



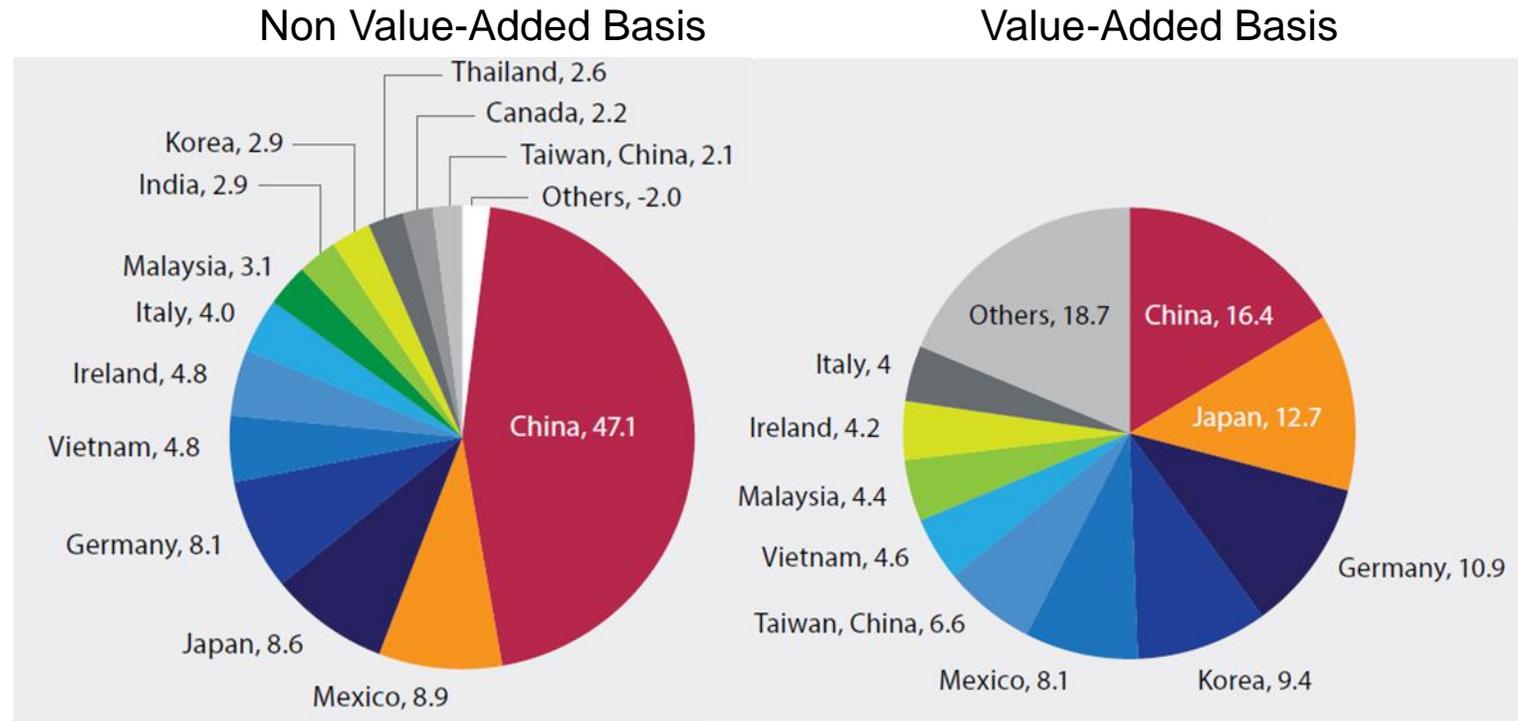
Legend: ● Low Impact ● Medium Impact ● High Impact

Escalating global trade tensions can derail the region’s export growth given its openness to trade and extensive trade linkages through the region’s supply chains.

U.S. Merchandise Trade Deficits

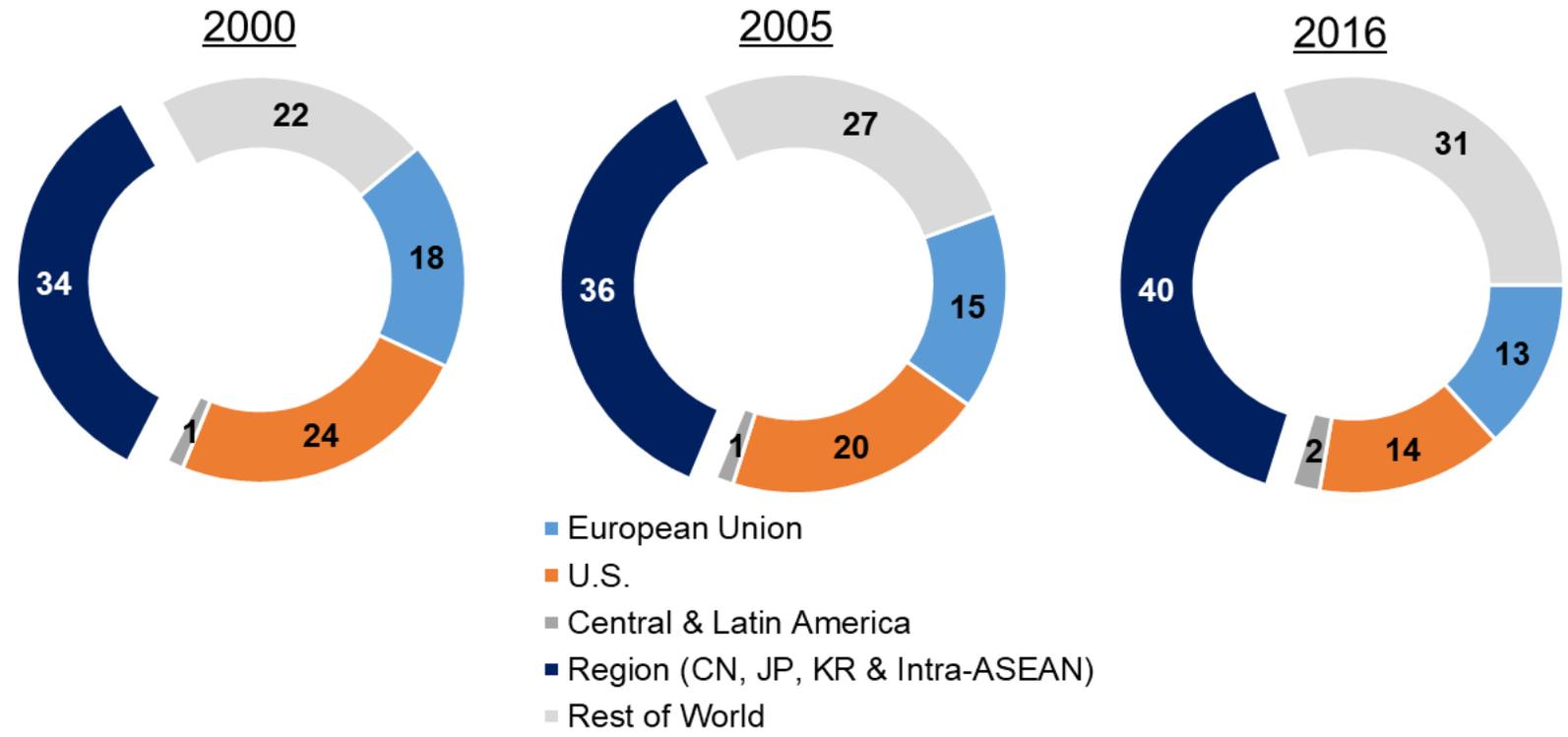


Regional Economies’ Contribution to U.S. Merchandise Trade Deficit (2015)



Growing intra-regional demand can partially cushion the impact of external shocks such as trade protectionism

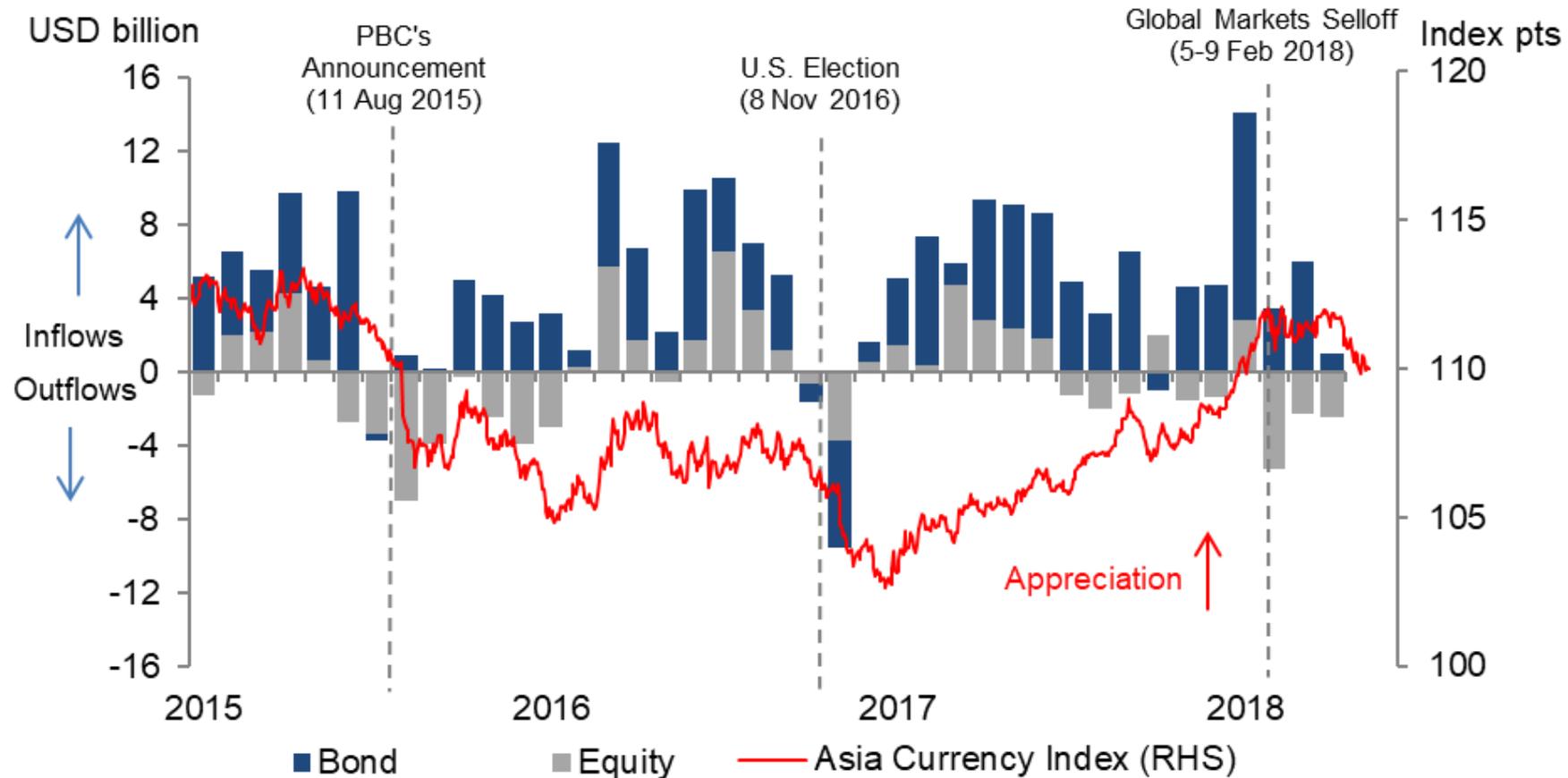
ASEAN's Value-added Exports (by Major Destinations)



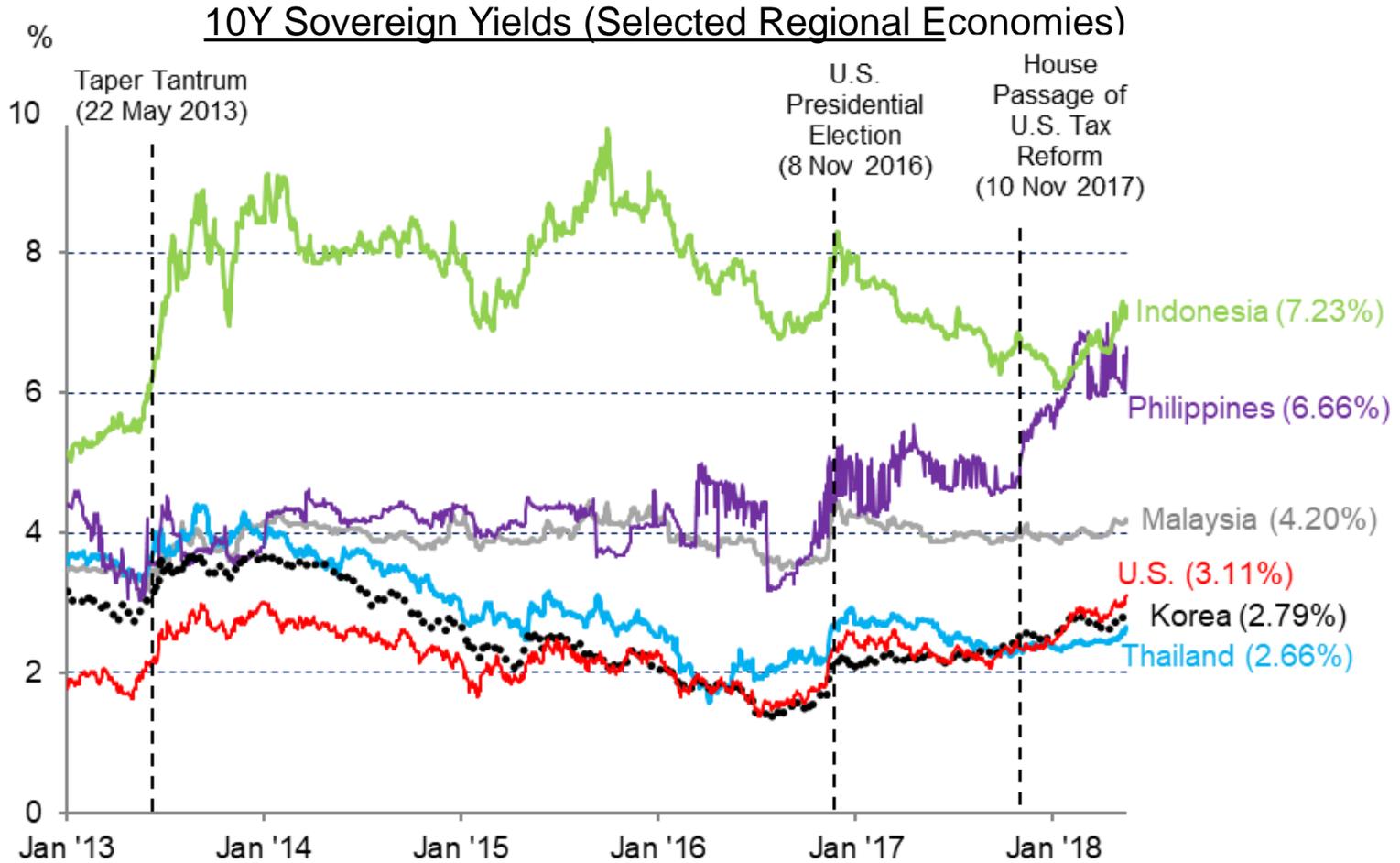
Note: Data after 2011 refer to AMRO's estimates.
Source: Bloomberg, AMRO staff estimates

As the region has received large inflows into bond markets, the risk of outflows triggered by global tightening or confidence shocks should be closely monitored.

Non-Resident Net Capital Flows (ASEAN-4, VN and Korea)

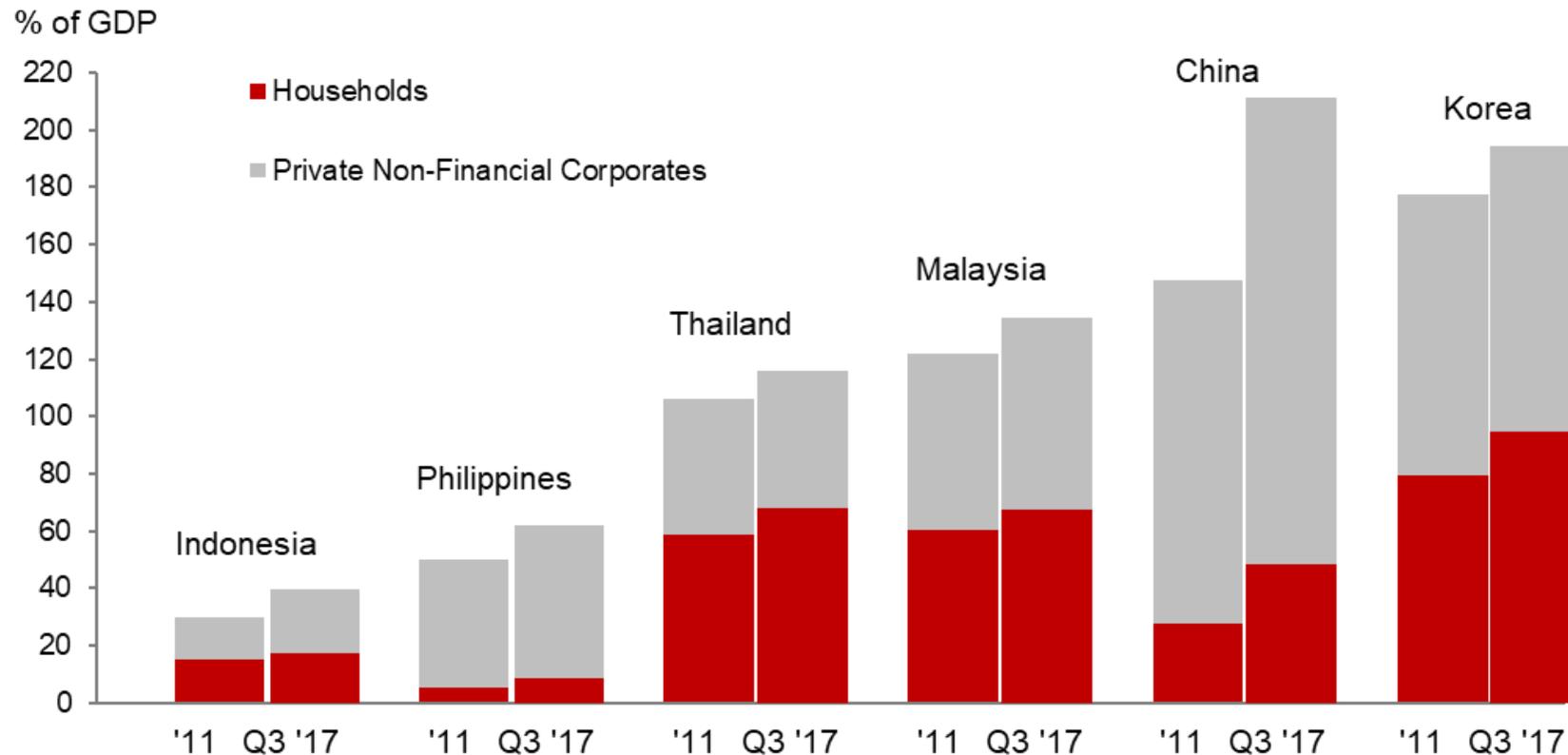


Faster-than expected tightening in global financial conditions, led by the U.S. in response to rising inflation, will pull up yields in the region.



Tightening global financial conditions would have greater impact through rising borrowing costs in economies where vulnerabilities such as debt have built up.

Selected ASEAN+3 Economies: Credit to Households and Private Non-Financial Corporates from All Sectors



Note: Data refers to total credit extended by domestic banks and other private institutions to private households and non-financial corporates.

Source: BIS, Haver, AMRO

Most economies are at mid-business cycle where the output gap is small. In the credit cycle, credit growth in most economies is slowing after the peak.

- Economies in mid-business cycle would not need additional policy stimulus to support growth. With the past build-up in credit, policymakers should prioritise financial stability over the growth objective in the near term.

ASEAN+3 Economies in Business and Credit Cycles

		Credit Cycle			
		Recovery	Expansionary	Slowing	Contractionary
Business Cycle	Early	Brunei Indonesia		Myanmar	
	Mid	Thailand	Hong Kong Vietnam	Cambodia China Korea Lao PDR Malaysia Singapore	
	Late			Japan The Philippines	
	Downturn				

Monetary Policy	<ul style="list-style-type: none">• Accommodative, but global tightening will constrain policy space.• Tightening bias where economies do not need further stimulus and/or where external imbalances are building up.• Exchange rate flexibility can continue to cushion impact of external shocks
Fiscal Policy	<ul style="list-style-type: none">• Complementing monetary policy to support growth, subject to available fiscal space and fiscal rules,• Where there is no need to support growth further, targeted fiscal policy to support structural adjustment.
Macroprudential Policy	<ul style="list-style-type: none">• Safeguarding financial stability through targeted measures in sectors (e.g. property market) where vulnerabilities have built up.
Structural Policy	<ul style="list-style-type: none">• Complementing demand management policies, to raise productive capacity through building physical infrastructure and human capital, and to promote economic diversification in order to improve resilience in the economy.

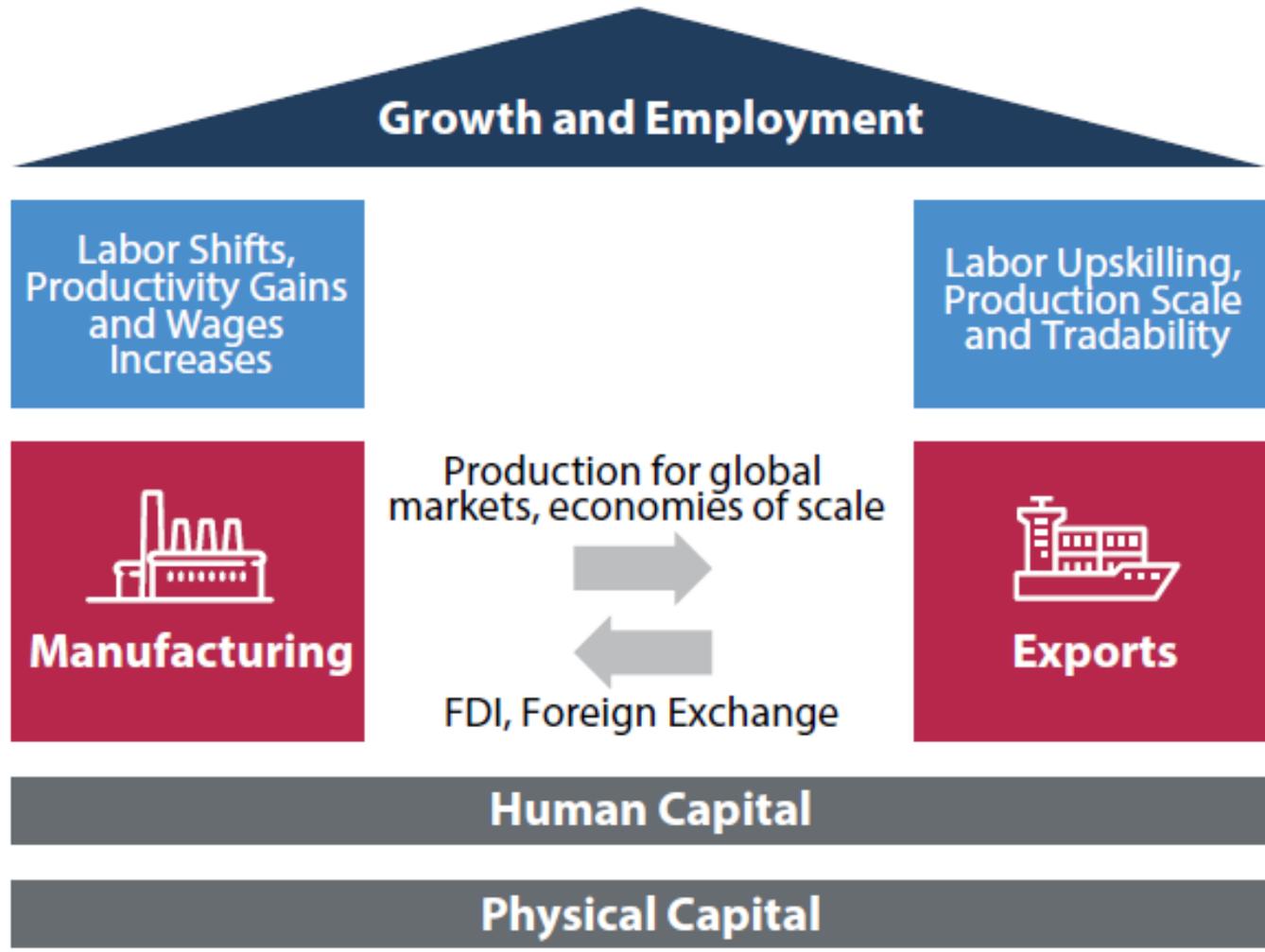
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Macroeconomic Prospects and Challenges

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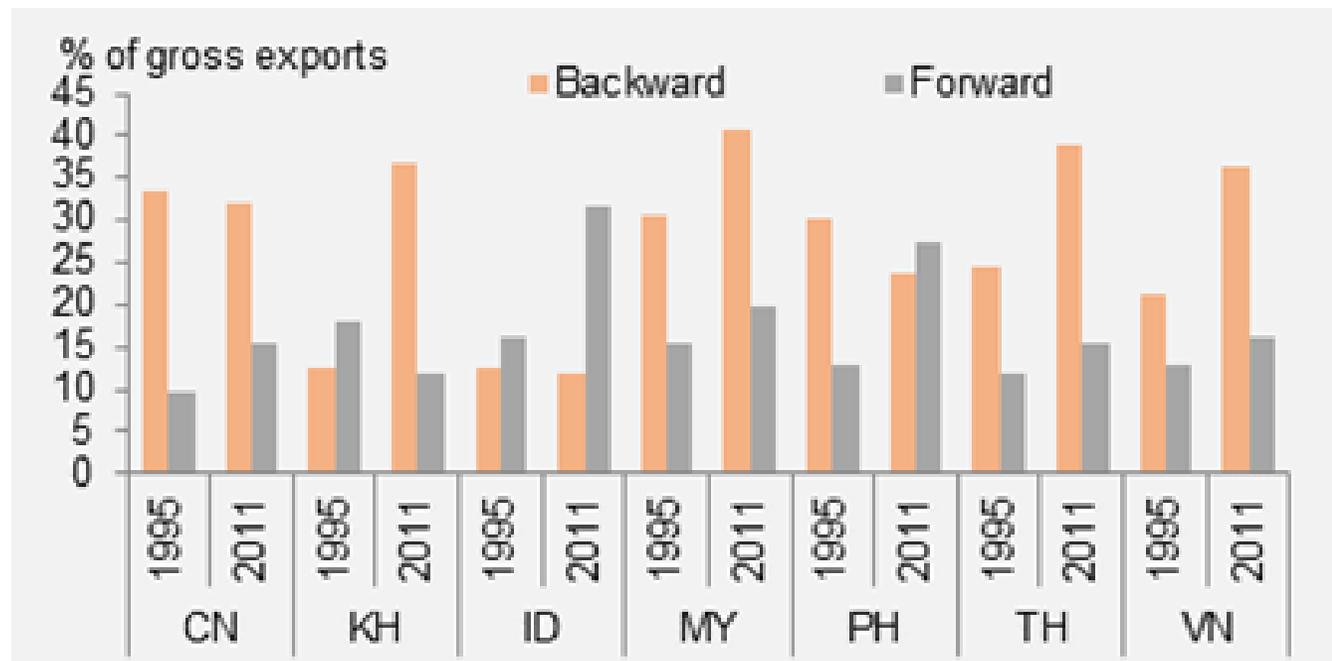
Theme: Resilience and Growth in a Changing World

“Manufacturing for Exports” Strategy – Driving Growth Convergence



- Vietnam records some of the highest levels of global value chain (GVC) integration, in particular backward participation, among ASEAN economies.
- The country's particular pattern of GVC participation reflects its recent transition from exports of primary and intermediate products/natural resources to final manufacturing products.

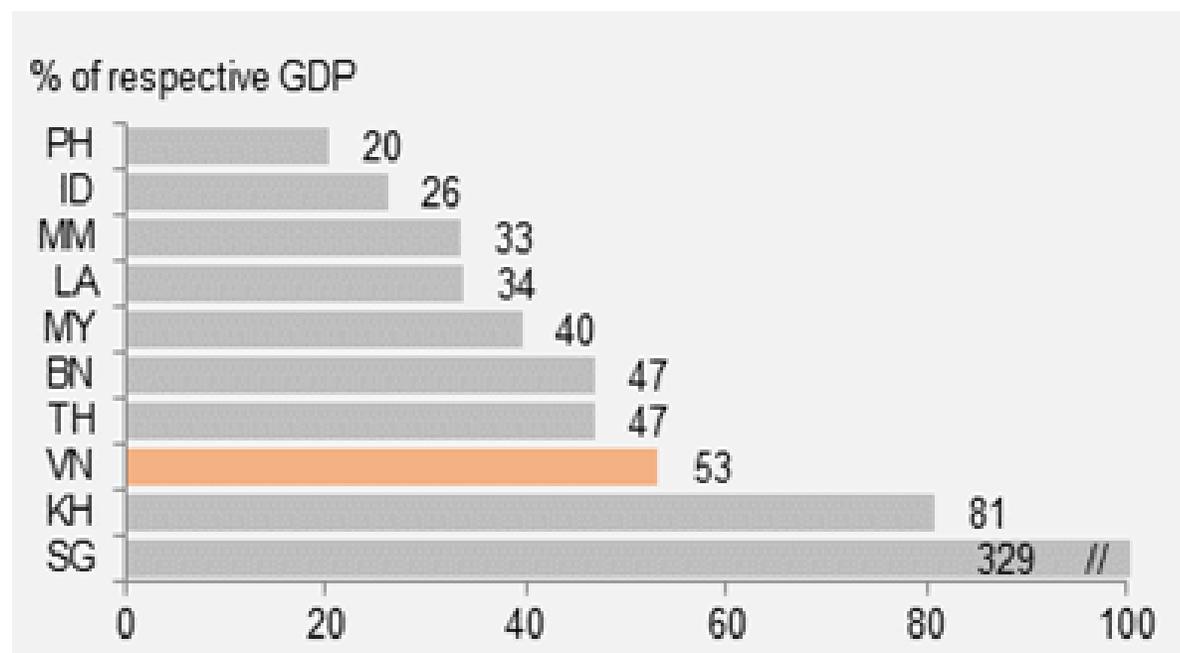
GVC participation: Vietnam vs ASEAN



Vietnam's relatively high backward GVC participation has been consistent with:

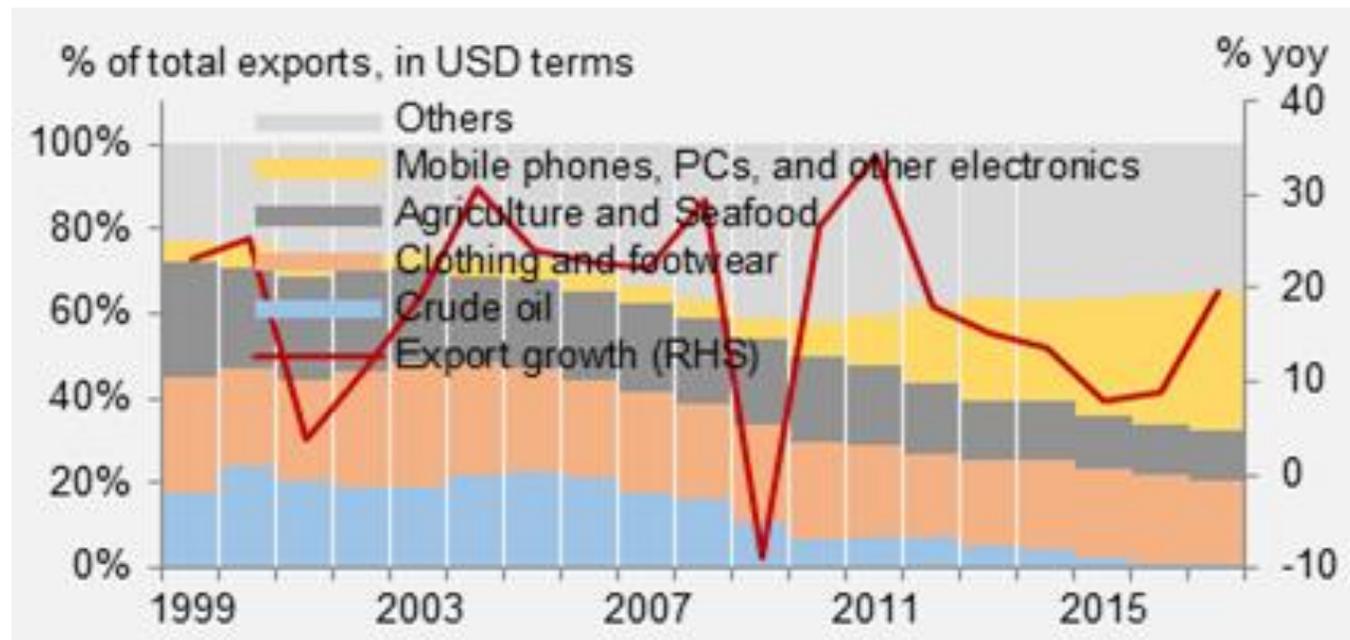
- **Structural features:** Vietnam has been endowed with an increasingly large market size, a relatively competitive labor force, and a strategic location within the region.
- **Policy factors:** The country's favorable trade and investment openness have further contributed to its high level of backward GVC participation.

Inward FDI Stock: Vietnam vs ASEAN



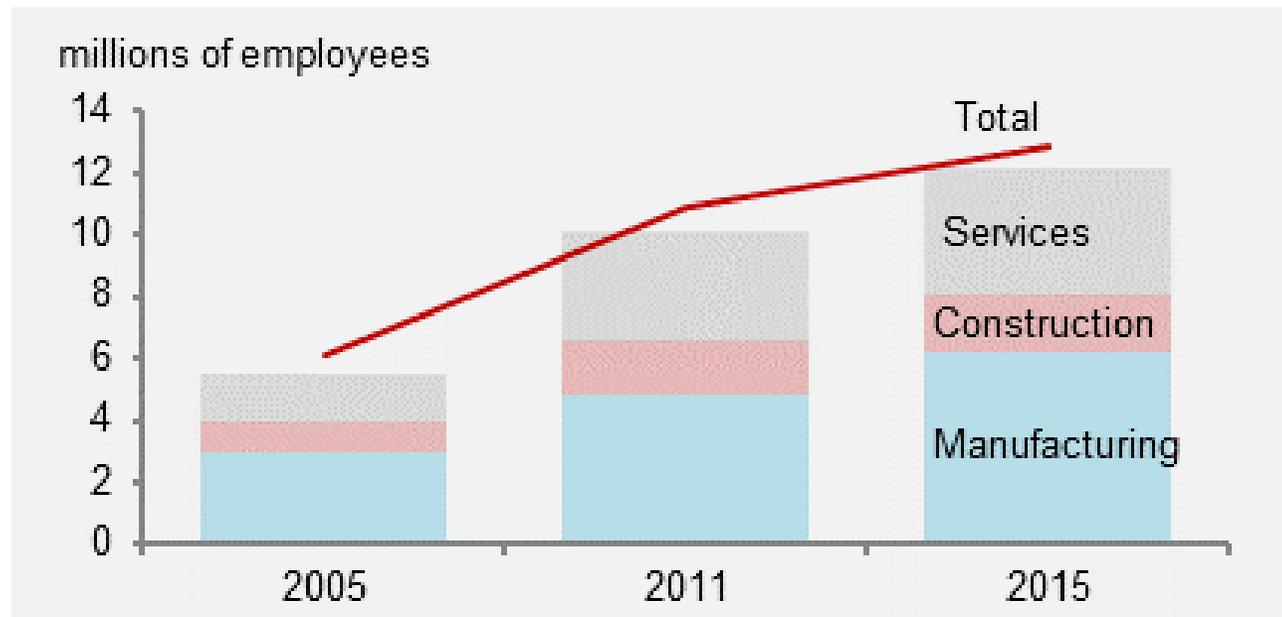
- By integrating itself into GVCs, Vietnam has emerged as an Asian manufacturing powerhouse specializing in assembly functions by primarily foreign firms.
- Granular trade data indicate remarkable performance in electronics, textiles and apparel, and agriproducts.

Vietnam's export structure and growth



The economy has benefited from its export-oriented manufacturing sector, which has helped create jobs and support economic growth

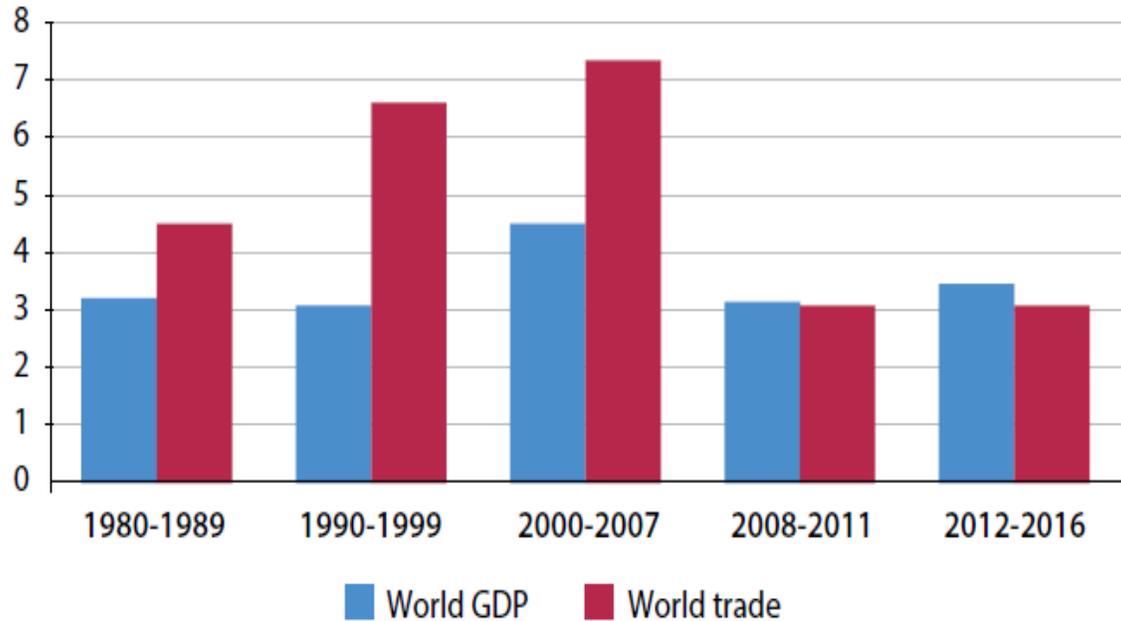
Number of employees, by industry



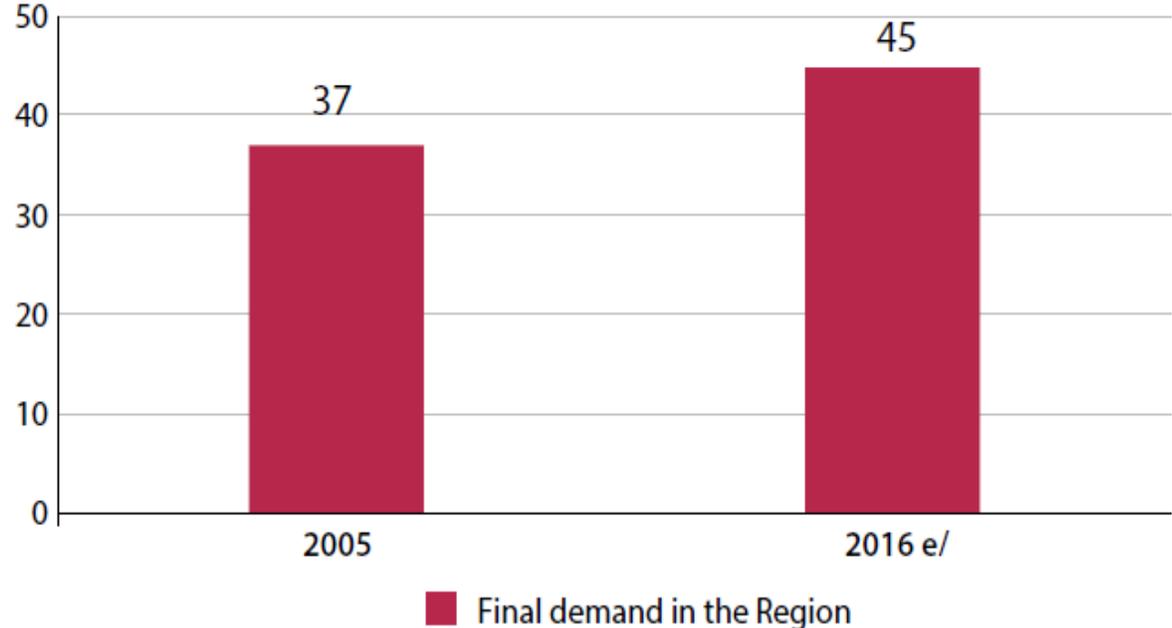
	Growth Driver	Challenges
Global Value Chains (GVCs)	<ul style="list-style-type: none"> • Integrated the region and made region more competitive • Eased entry into global trade for developing ASEAN economies 	<ul style="list-style-type: none"> • Growing less as countries substitute imported inputs with their own production • Amplified transmission of shocks through supply chain across region
Technology	<ul style="list-style-type: none"> • Enabler for services sector 	<ul style="list-style-type: none"> • Reduced demand for low-skilled labor in manufacturing
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 compared to manufacturing

Even as global trade growth slowed, intra-regional trade continues to grow and absorb exports from within the region

Average growth, % yoy

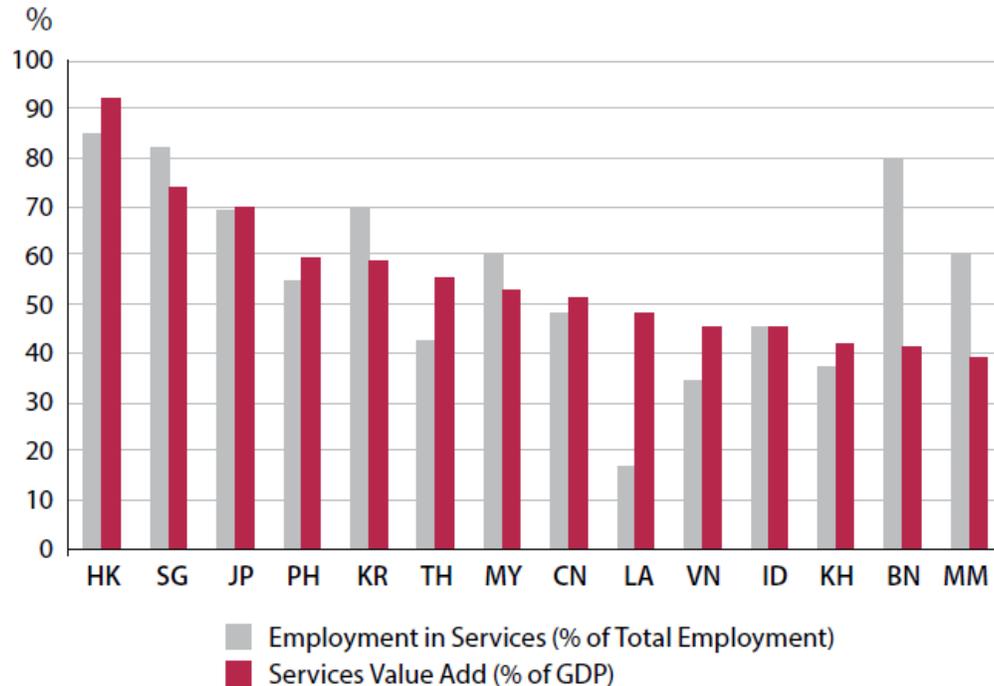


% Share of Total Regional Exports (in Value-Added Terms)

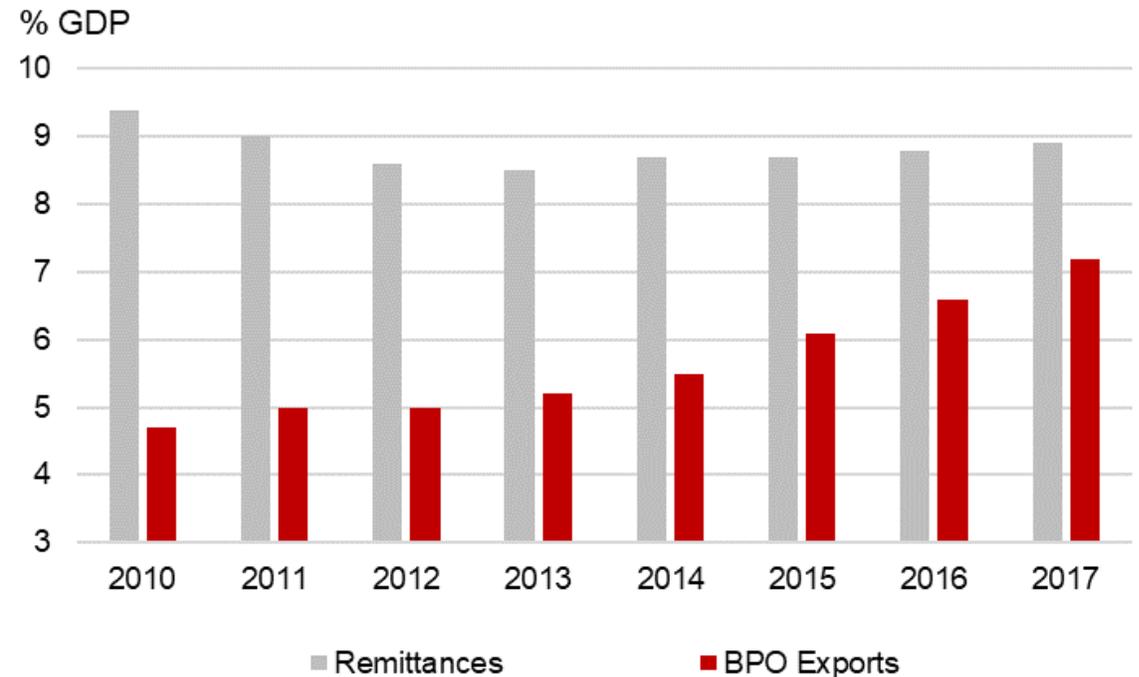


The services sector now accounts for more than half of both GDP and employment in many ASEAN+3 economies, and large shares of value-added content of exports.

Services accounts for more than half of GDP and employment in many regional economies...



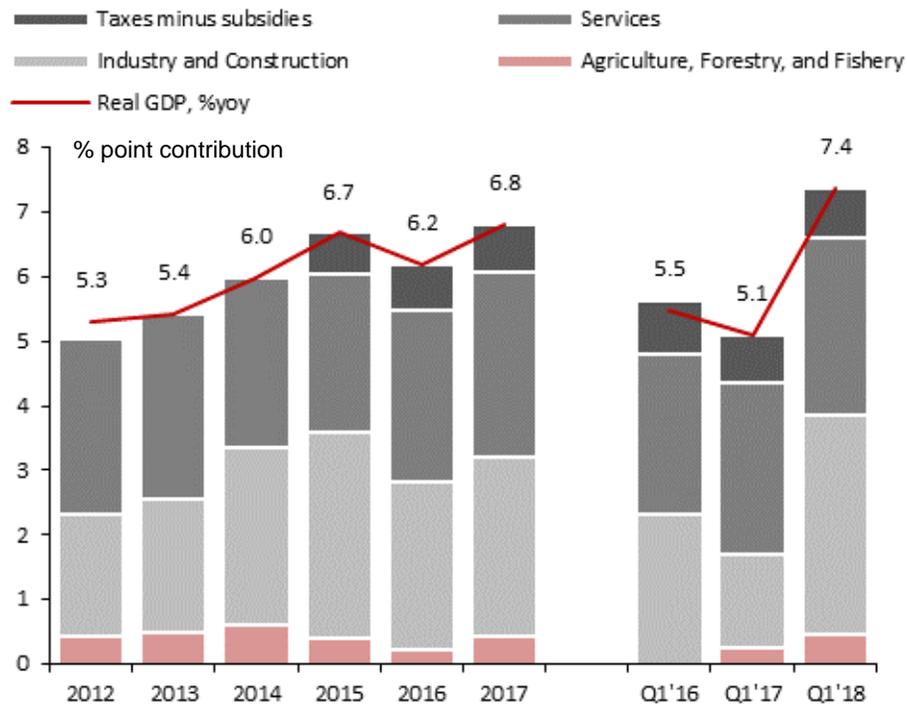
... and BPO sector in the Philippines is a success story, with growing export receipts catching up to remittances in importance



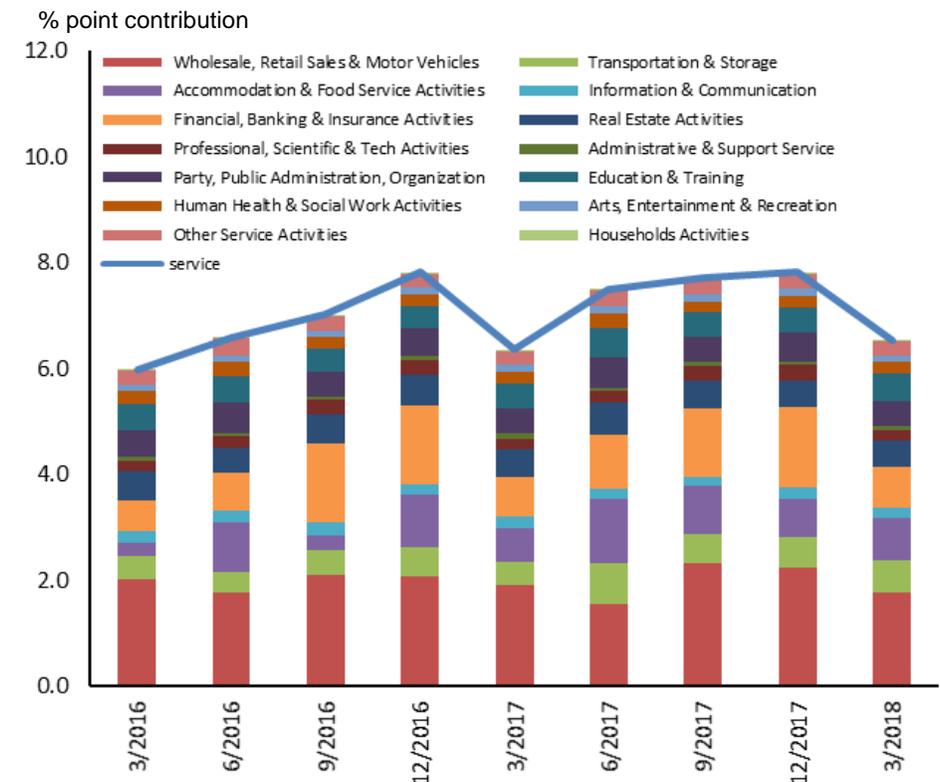
Services: Growth Potential in Vietnam?

In Vietnam, services constitute a significant share of GDP and will be increasingly important as the country moves up the growth path.

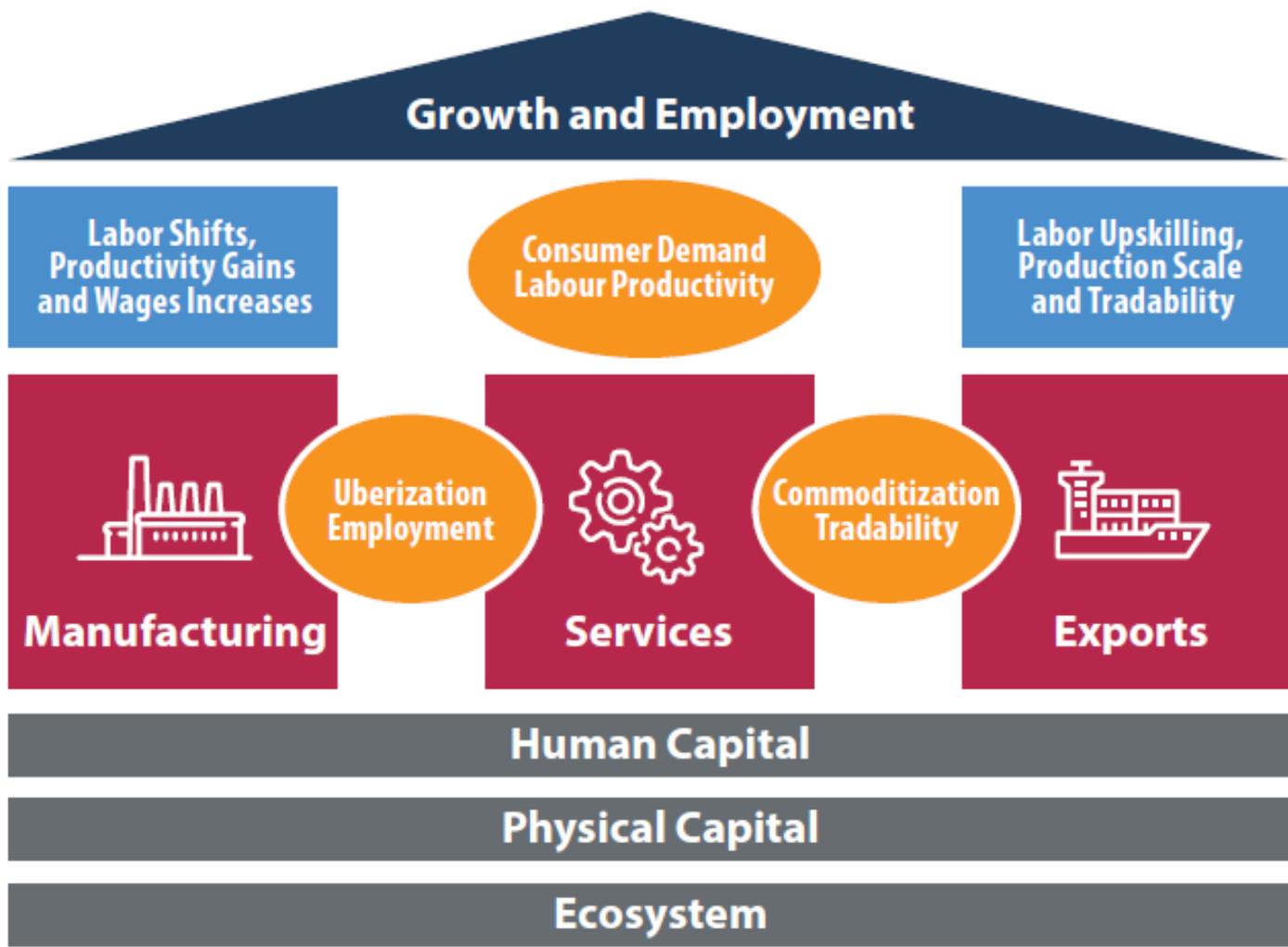
Services accounted for over 40 percent of GDP growth in 2017...



...driven by robust activity in wholesale and retail trade and financial services.



An Augmented “Manufacturing for Exports” Strategy?



Our region's strength: Ample buffers and resources for use in investing in region's productive capacity and to deepen integration

Trade	<ul style="list-style-type: none">• Maximise benefits from GVC integration through trade facilitation, special economic zones• Lower costs of trade through infrastructure investment to increase connectivity• Export to meet growing intra-regional demand (e.g. tourism)
Services	<ul style="list-style-type: none">• Grow services sector as additional growth engine to manufacturing• Raise productivity of services sector through technology and liberalisation, creating skilled jobs in services sector
Labor policies	<ul style="list-style-type: none">• Upskilling labor force, while managing social impact on unskilled labor.

Thank You

Contact Us:

ASEAN+3 Macroeconomic Research Office (AMRO)

Address: 10 Shenton Way, #15-08/9 MAS Building,
Singapore 079117

Tel : +65 6323 9844

Fax : +65 6323 9827

Email : vulanhuong@amro-asia.org (PR)

Website : www.amro-asia.org