ASEAN+3 Regional Economic Outlook 2018
Theme: Resilience and Growth in A Changing World

12 June 2018
Bangkok, Thailand
Macroeconomic Prospects and Challenges

Theme: Resilience and Growth in a Changing World
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

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<th>'17</th>
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<th>'19 p/</th>
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<tbody>
<tr>
<td><strong>Real GDP growth % yoy</strong></td>
<td></td>
<td>Latest Estimates (Mar '18)</td>
<td>Latest Estimates (Mar'18)</td>
</tr>
<tr>
<td>China</td>
<td>6.9</td>
<td>6.6</td>
<td>6.4</td>
</tr>
<tr>
<td>Japan (FY)</td>
<td>1.8</td>
<td>1.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Korea</td>
<td>3.1</td>
<td>2.9</td>
<td>2.8</td>
</tr>
<tr>
<td>ASEAN-4 &amp; VN</td>
<td>5.4</td>
<td>5.3</td>
<td>5.3</td>
</tr>
<tr>
<td>BCLM</td>
<td>6.5</td>
<td>6.6</td>
<td>7.0</td>
</tr>
<tr>
<td>HK &amp; SG</td>
<td>3.7</td>
<td>3.2</td>
<td>2.9</td>
</tr>
<tr>
<td><strong>ASEAN+3</strong></td>
<td><strong>5.6</strong></td>
<td><strong>5.4</strong></td>
<td><strong>5.2</strong></td>
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Source: National Authorities, AMRO
Risks confronting the region are mainly external.

- Escalation of geopolitical risks in the region
- Weaker than expected growth in G3
- Sharper-than-expected slowdown in China’s growth and capital flight

Perennial Risks:
- Cyber-Attacks
- Climate Change

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.

**Risks: Trade Protectionism**

Source: U.S. Census Bureau, Deutsche Bank, based on data from China Customs, IMF and WIND.
Intra-regional Demand

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

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

- European Union
- U.S.
- Central & Latin America
- Region (CN, JP, KR & Intra-ASEAN)
- Rest of World

Note: Data after 2011 refer to AMRO’s estimates. Source: Bloomberg, AMRO staff estimates
**Risks: Capital Outflows**

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.

[Graph showing Non-Resident Net Capital Flows for ASEAN-4, VN, and Korea with significant events such as PBC's Announcement, U.S. Election, and Global Markets Selloff]

Source: Bloomberg
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.
### Monetary Policy
- **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
- **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.**

### Macropresidential Policy
- **Safeguarding financial stability** through targeted measures in sectors (e.g. property market) where vulnerabilities have built up.

### Structural Policy
- 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.

Source: AMRO
1. Macroeconomic Prospects and Challenges

2. Theme: Resilience and Growth in a Changing World
“Manufacturing for Exports” Strategy – Driving Growth Convergence

Growth and Employment

- Labor Shifts, Productivity Gains and Wages Increases
- Labor Upskilling, Production Scale and Tradability

Manufacturing

Production for global markets, economies of scale

Exports

FDI, Foreign Exchange

Human Capital

Physical Capital

Source: AMRO
Thailand’s Engagement in Global Value Chains

- Thai exports have risen significantly and became more diversified, partly due to its participation in MNCs’ production networks.
- Thailand records some of the highest levels of global value chain (GVC) integration, in particular in terms of backward linkage, among ASEAN economies.

Source: Bank of Thailand, OECD’s Trade in Value Added database (TiVA), International Trade Center’s FDI statistics, and AMRO Staff Calculations
Thailand’s Engagement in Global Value Chains

- Japanese companies are the biggest FDI investors in Thailand, with an established industrial cluster. FDI from ASEAN+3 as a whole also rose significantly throughout the years.
- Thai companies’ outward direct investments have also increased through the years. In particular, Thai investments in CLMV countries increased, given the relatively cheap labor, growing middle-income class, and higher growth rates in these countries.

Source: Bank of Thailand, OECD’s Trade in Value Added database (TiVA), International Trade Center’s FDI statistics, and AMRO Staff Calculations
**“Manufacturing for Exports” Strategy**

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<th>Growth Driver</th>
<th>Challenges</th>
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<td><strong>Global Value Chains</strong></td>
<td>• Integrated the region and made region more competitive</td>
<td>• Growing less as countries substitute imported inputs with their own production</td>
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<td>(GVCs)</td>
<td>• Eased entry into global trade for developing ASEAN economies</td>
<td>• Amplified transmission of shocks through supply chain across region</td>
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<td><strong>Technology</strong></td>
<td>• Enabler for services sector</td>
<td>• Reduced demand for low-skilled labor in manufacturing</td>
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<tr>
<td><strong>Services</strong></td>
<td>• Becoming tradable</td>
<td>• Productivity, wages and job quality still lagging compared to manufacturing</td>
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<td></td>
<td>• Matching supply with latent demand</td>
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Even as global trade growth slowed, intra-regional trade continues to grow.

Source: IMF, AMRO staff calculations
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.

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

Source: World Bank, National Authorities
In Thailand, the share of services in GDP have increased, while that of agriculture has decreased. Tourism revenue in particular has risen significantly, driven by increased tourist arrivals, including from China.

Services accounted for over 55 percent of GDP value added…

…as tourist arrivals and tourism receipts increased significantly.

Source: CEIC, World Bank, Department of Tourism, AMRO staff calculations
Thailand aims to develop new growth engines with high technology, innovation, and a knowledgeable society by developing the Eastern Economic Corridor (EEC) and adopting the Thailand 4.0 initiative.

Alongside investment incentives, air, land and sea transportation infrastructure will be developed in the EEC … …while 5 existing S curve will be enhanced, and 5 new S curve industries will be developed.
An Augmented “Manufacturing for Exports” Strategy?

Growth and Employment

- Labor Shifts, Productivity Gains and Wages Increases
- Consumer Demand Labour Productivity
- Labor Upskilling, Production Scale and Tradability

Manufacturing
- Uberization Employment

Services
- Commoditization Tradability

Exports

Human Capital

Physical Capital

Ecosystem

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

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<tr>
<th>Trade</th>
<th>Services</th>
<th>Labor policies</th>
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<tr>
<td>• Maximise benefits from <strong>GVC integration</strong> through <strong>trade facilitation, special economic zones</strong></td>
<td>• <strong>Grow services sector</strong> as additional growth engine to manufacturing</td>
<td>• <strong>Upskilling labor force</strong>, while managing social impact on unskilled labor.</td>
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<tr>
<td>• Lower costs of trade through <strong>infrastructure investment</strong> to increase connectivity</td>
<td>• Raise <strong>productivity</strong> of services sector through <strong>technology</strong> and <strong>liberalisation</strong>, creating skilled jobs in services sector</td>
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<tr>
<td>• Export to meet <strong>growing intra-regional demand</strong> (e.g. tourism)</td>
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Source: AMRO
Thank You

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