

ASEAN+3 Regional Economic Outlook 2018

Theme: Resilience and Growth in A Changing World

June 8, Jakarta, Indonesia



ASEAN+3 REGIONAL ECONOMIC OUTLOOK 2018

Resilience and Growth
in a Changing World



Contents

- I** ASEAN+3 Macroeconomic Prospects and Challenges
- II** Thematic Chapter: Resilience and Growth in a Changing World

Baseline Outlook:



Robust growth (above 5%), and more balanced between domestic demand and exports

Near Term risks:



- **Global monetary policy shifts:** A sharp re-pricing of risks amid upside inflation surprises
- **Escalation of global trade tensions:** In the event the proposed protectionist measures are implemented

Policy Mix



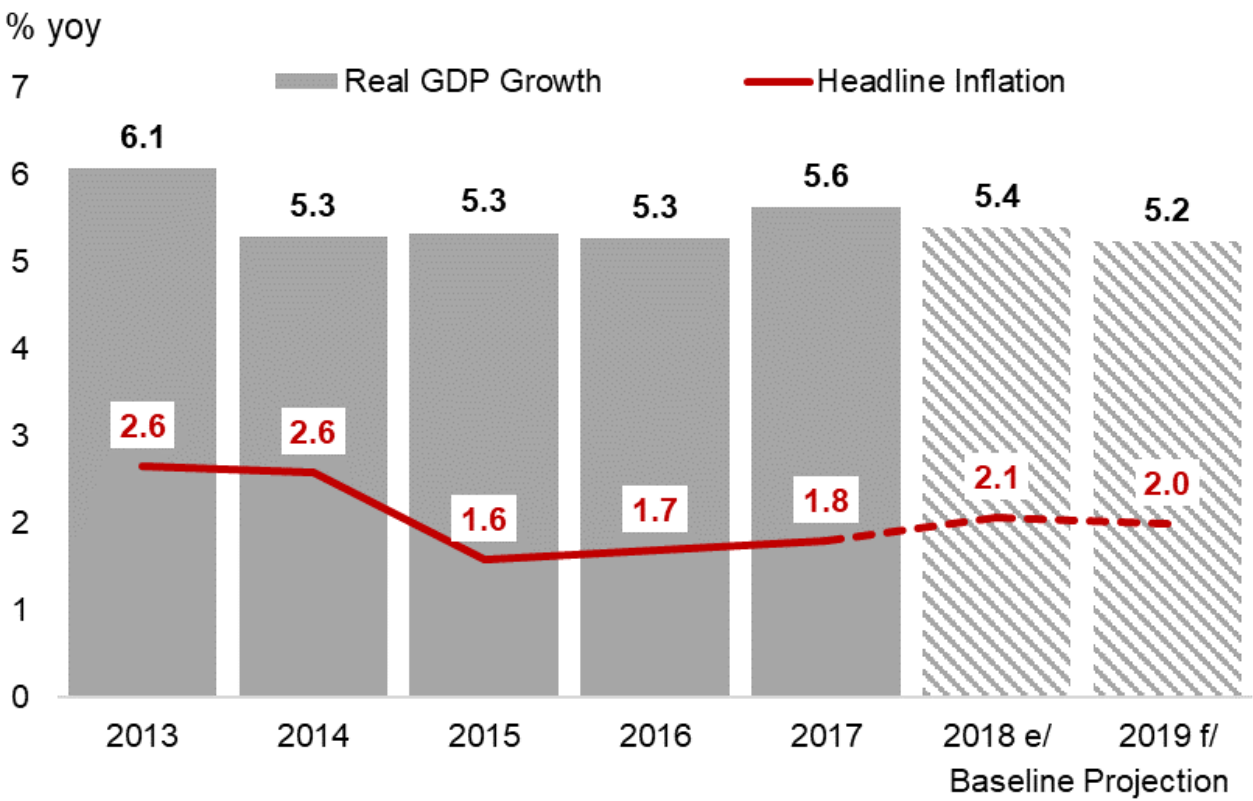
Policy mix to prioritise financial stability over growth objective

- Accommodative monetary policy, with tightening bias
- Complemented by fiscal policy, also supporting structural adjustment
- Macroprudential policy to help safeguard financial stability

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

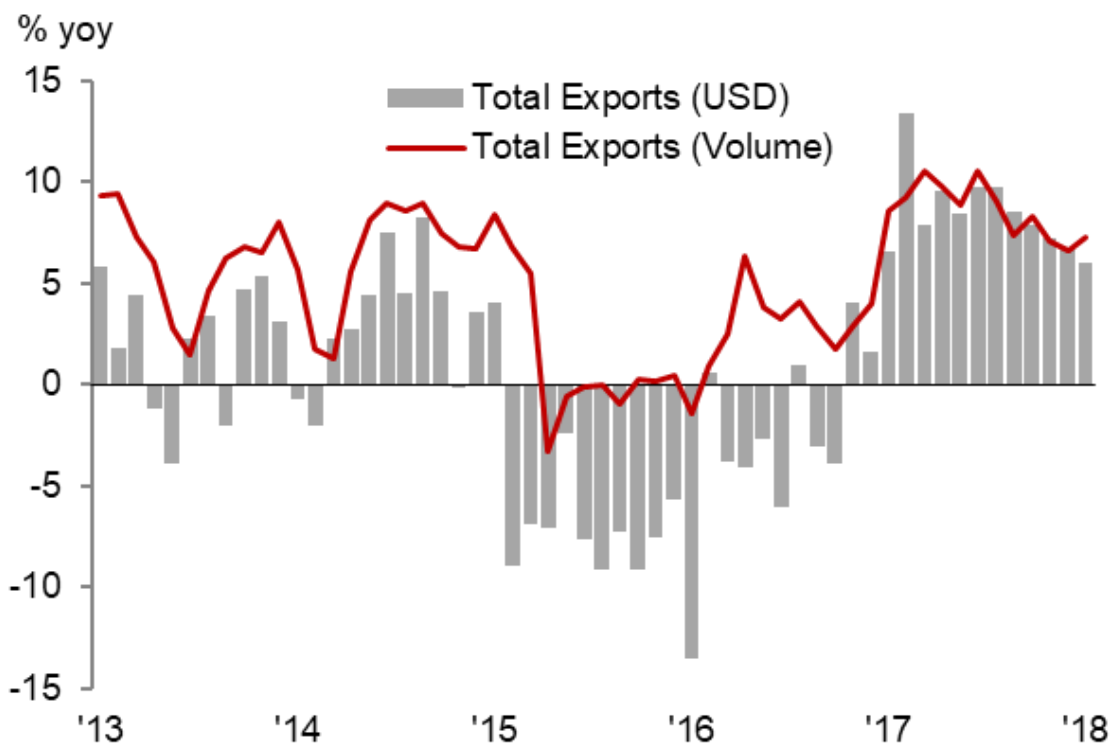


Real GDP growth % yoy	'17	'18 e/	'19 p/
		Latest Estimates (Mar '18)	Latest Estimates (Mar'18)
China	6.9	6.6	6.4
Japan (FY)	1.8	1.3	0.7
Korea	3.1	2.9	2.8
ASEAN-4 & VN	5.4	5.3	5.3
BCLM	6.5	6.6	7.0
HK & SG	3.7	3.2	2.9
ASEAN+3	5.6	5.4	5.2

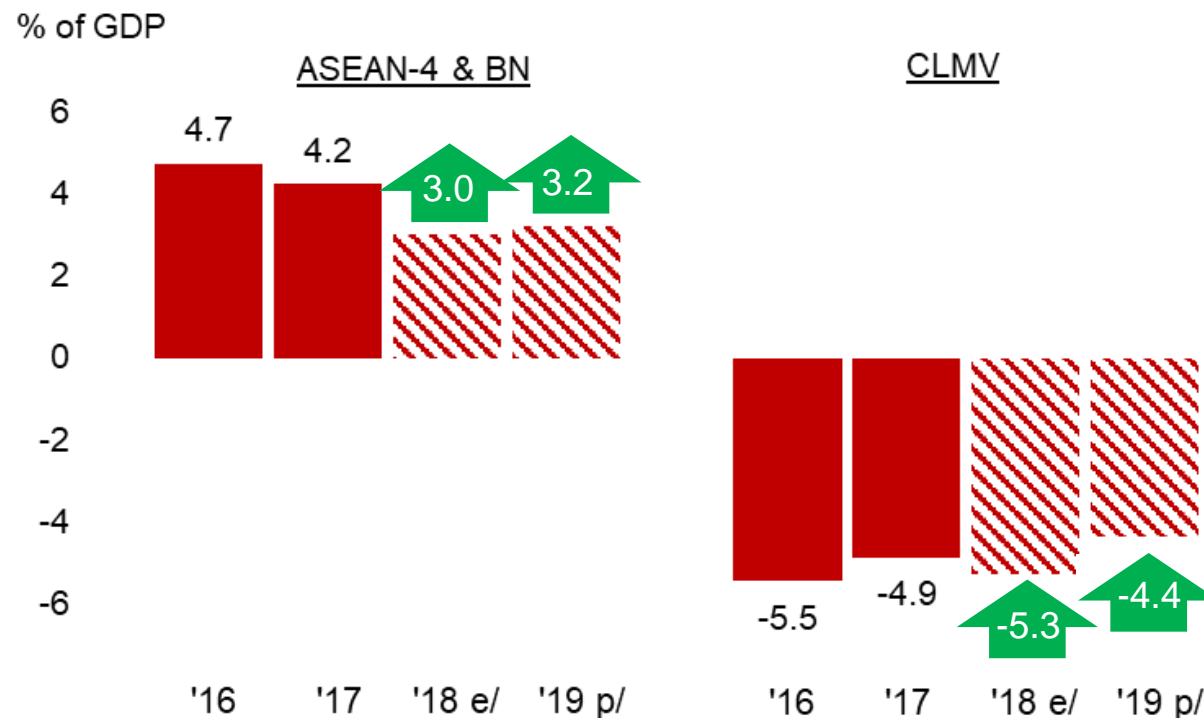
Source: National Authorities, AMRO

Robust export growth has resulted in improving external positions, with higher commodity prices giving an added boost to commodity exporters in the region.

Regional Exports (ASEAN+3 Region)

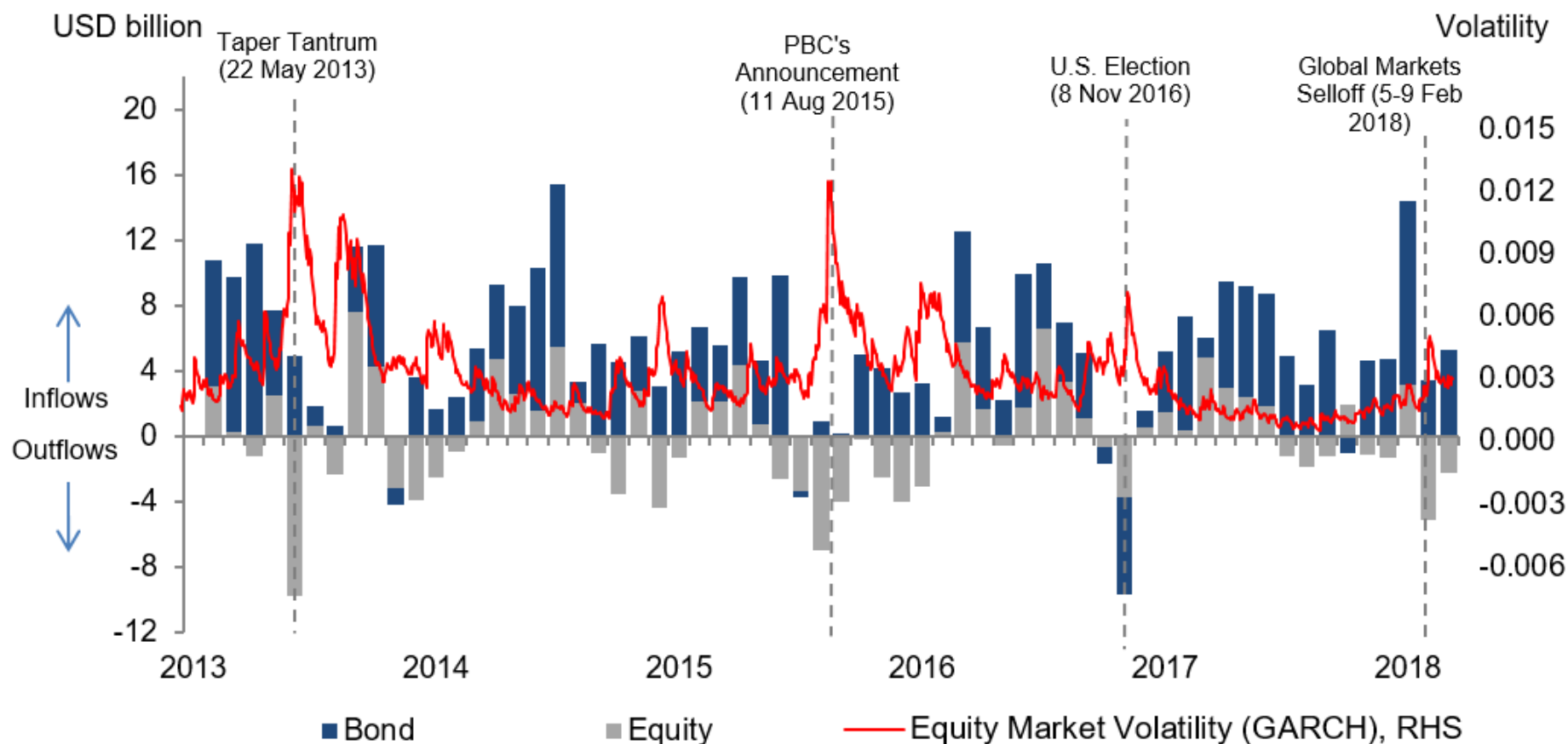


Current Account Positions (ASEAN ex-Singapore)



Capital flows continue to be volatile, reflecting the frequent shifts in risk appetite as investors react to the new tariffs measures and/or trade investigations announced by the U.S.

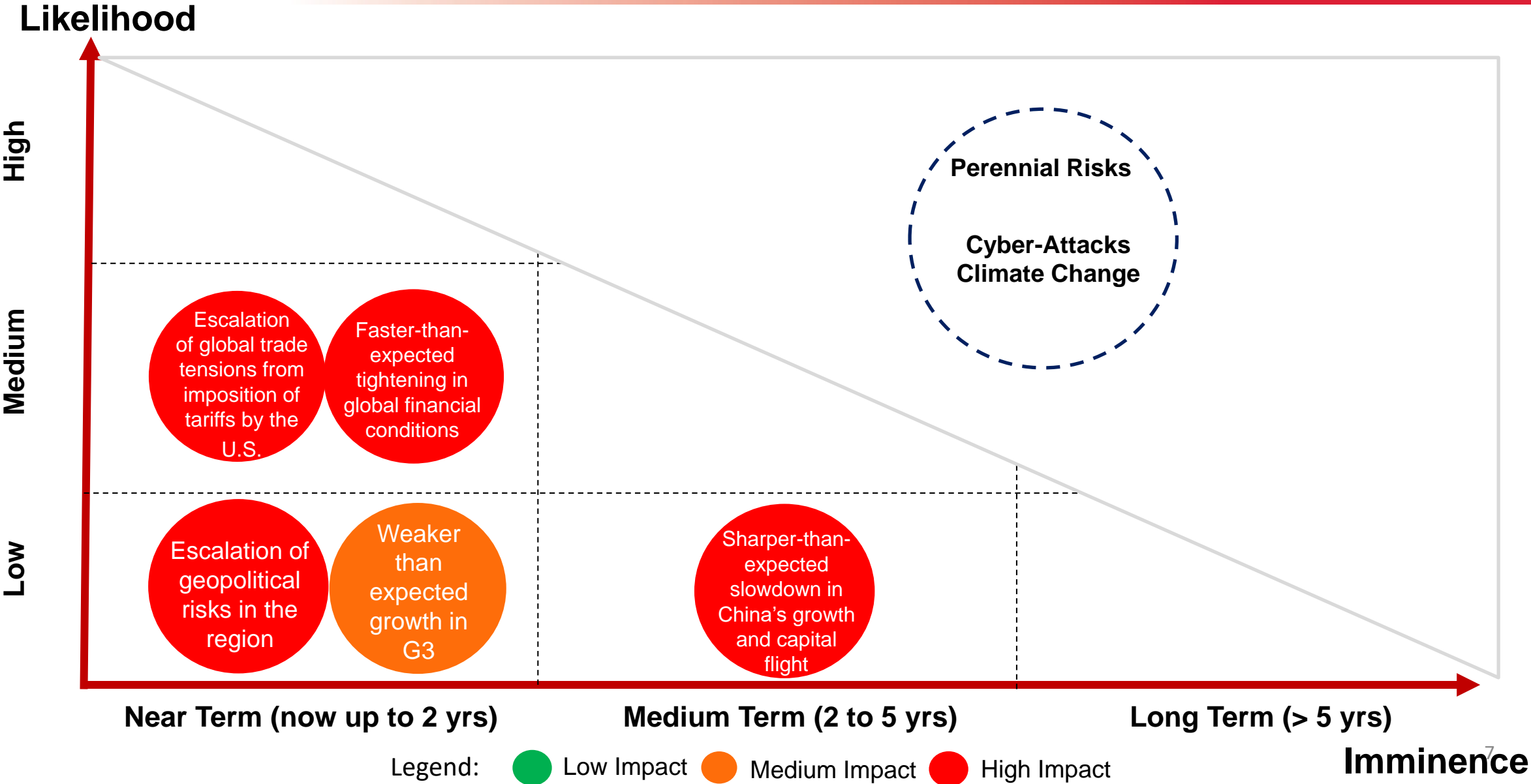
Non-Resident Net Portfolio Capital Flows (ASEAN-5 and Korea)



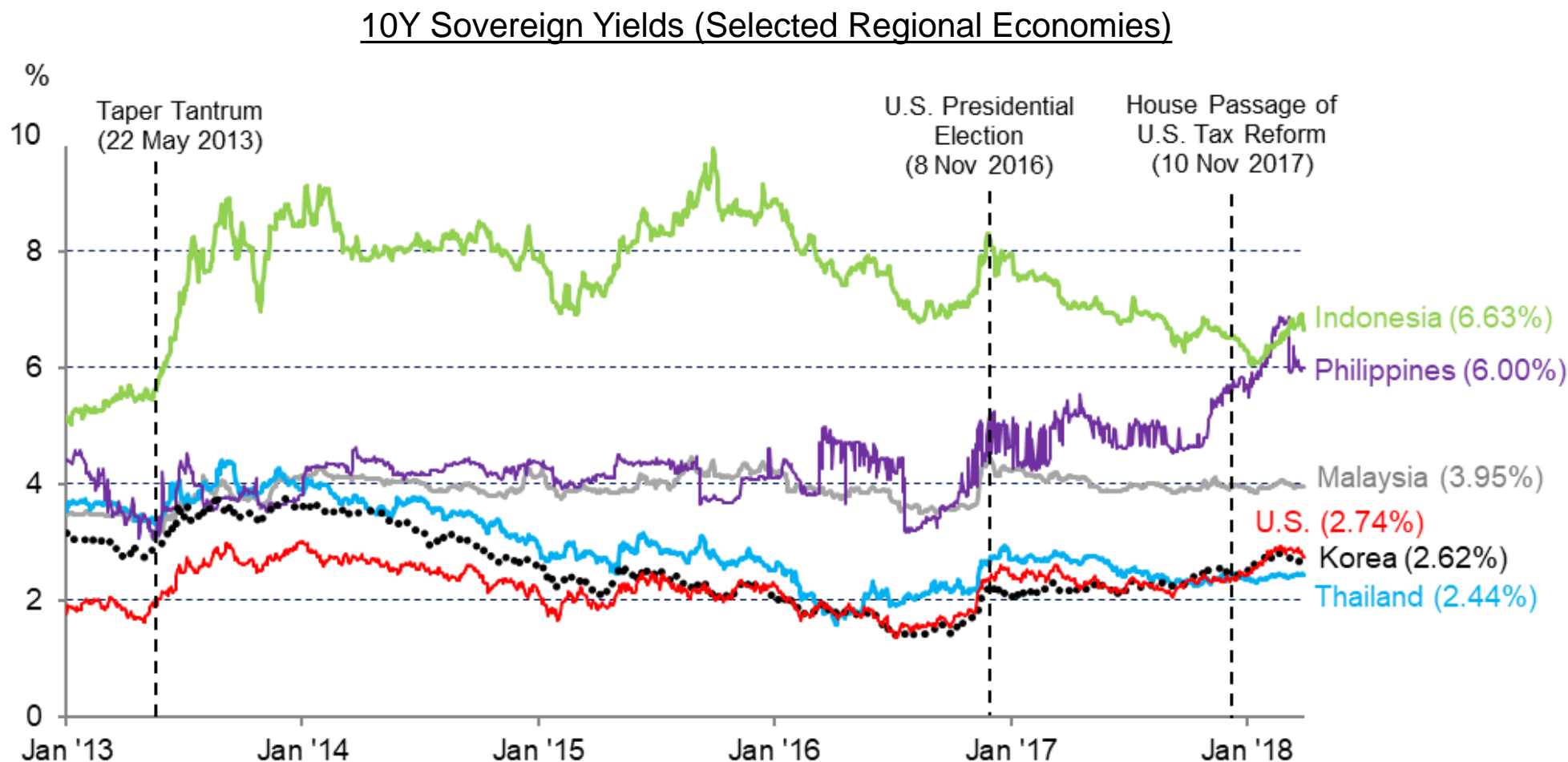
Cumulative net debt inflows

Jan '13 to Dec '17:
USD247 billion

Risks are Externally Driven

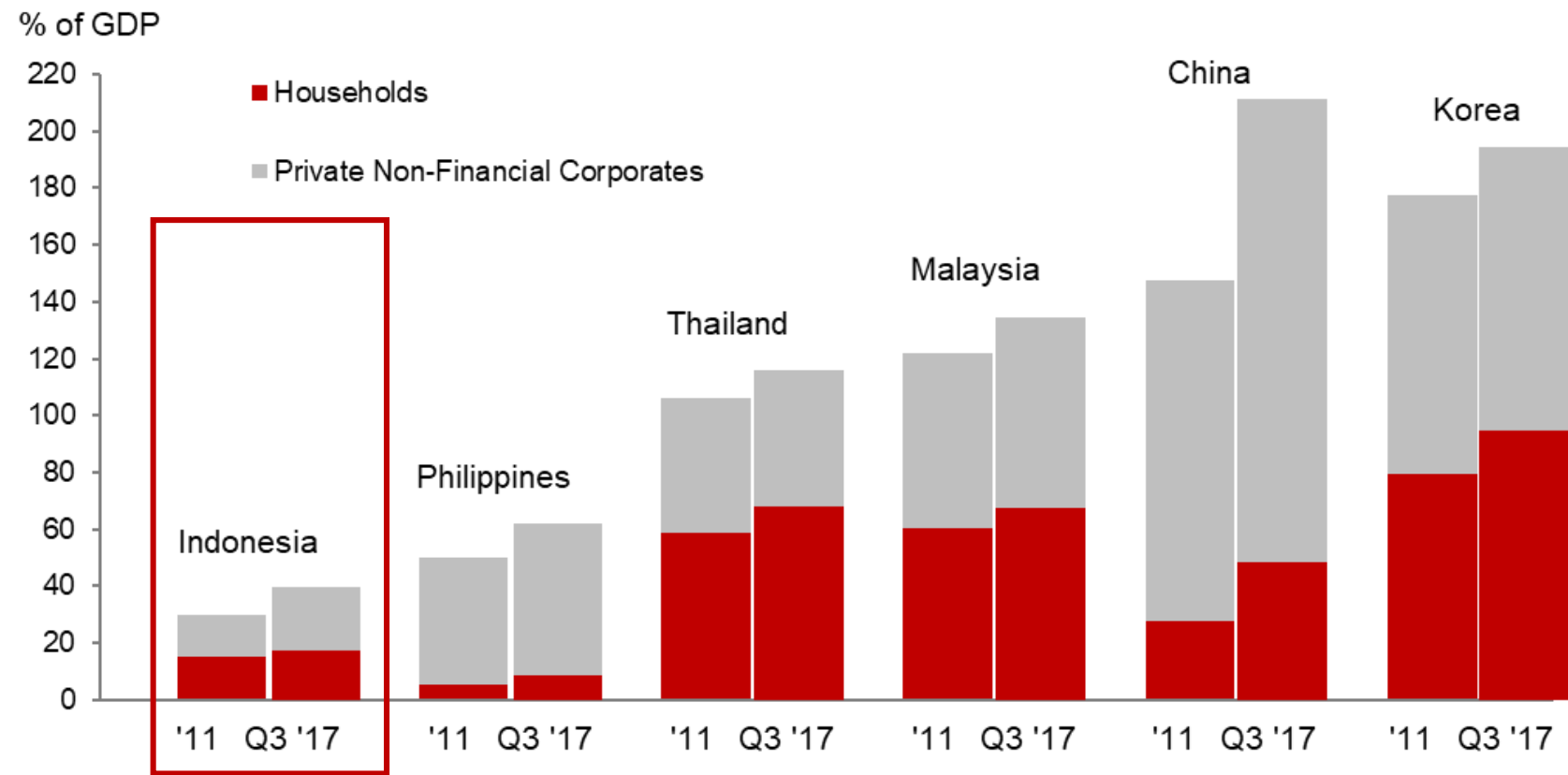


Faster-than expected tightening in global financial conditions, led by the U.S. in response to rising inflation, will pull up yields in the region.



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

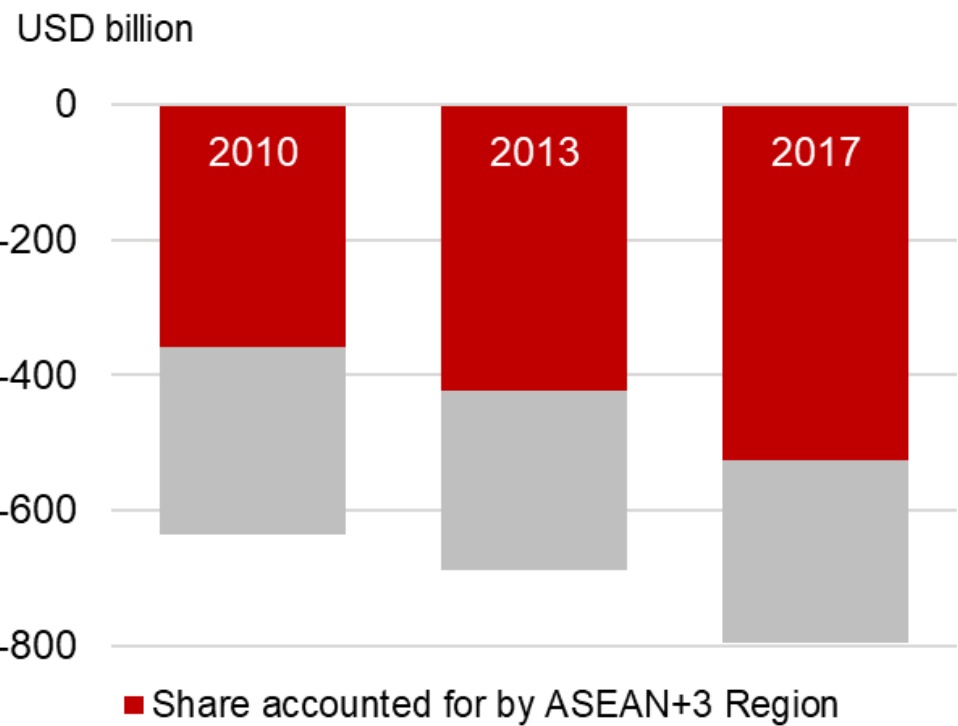
Selected ASEAN+3 Economies: Credit to Households and Private Non-Financial Corporates from All Sectors



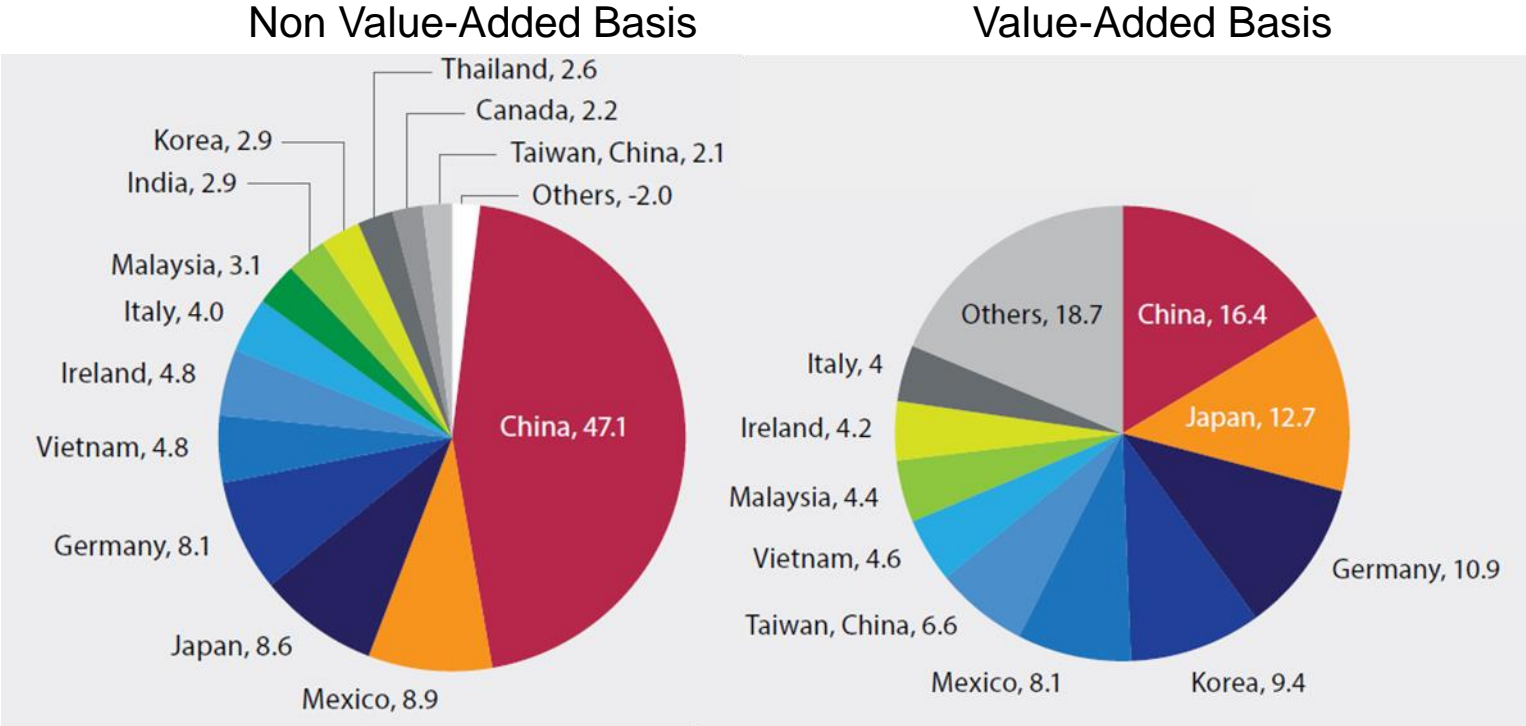
Note: Data refers to total credit extended by domestic banks and other private institutions to private households and non-financial corporates.
Source: BIS, Haver, AMRO

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)



AMRO estimates indicate that the impact from the proposed trade protectionist measures, if implemented, is negative.

GVAR Results: Estimates of Impact on Real GDP Growth

Countries	12 Months (Percentage Points of Growth)	36 Months (Percentage Points of Growth)
U.S.	-0.23	-0.39
China	-0.18	-0.16
Advanced economies		
Japan	-0.49 (average)	-0.46 (average)
Korea		
Emerging markets and developing economies		
Thailand	-0.22 (average)	-0.28 (average)
Malaysia		
Vietnam		
Indonesia		
Philippines		
Cambodia		

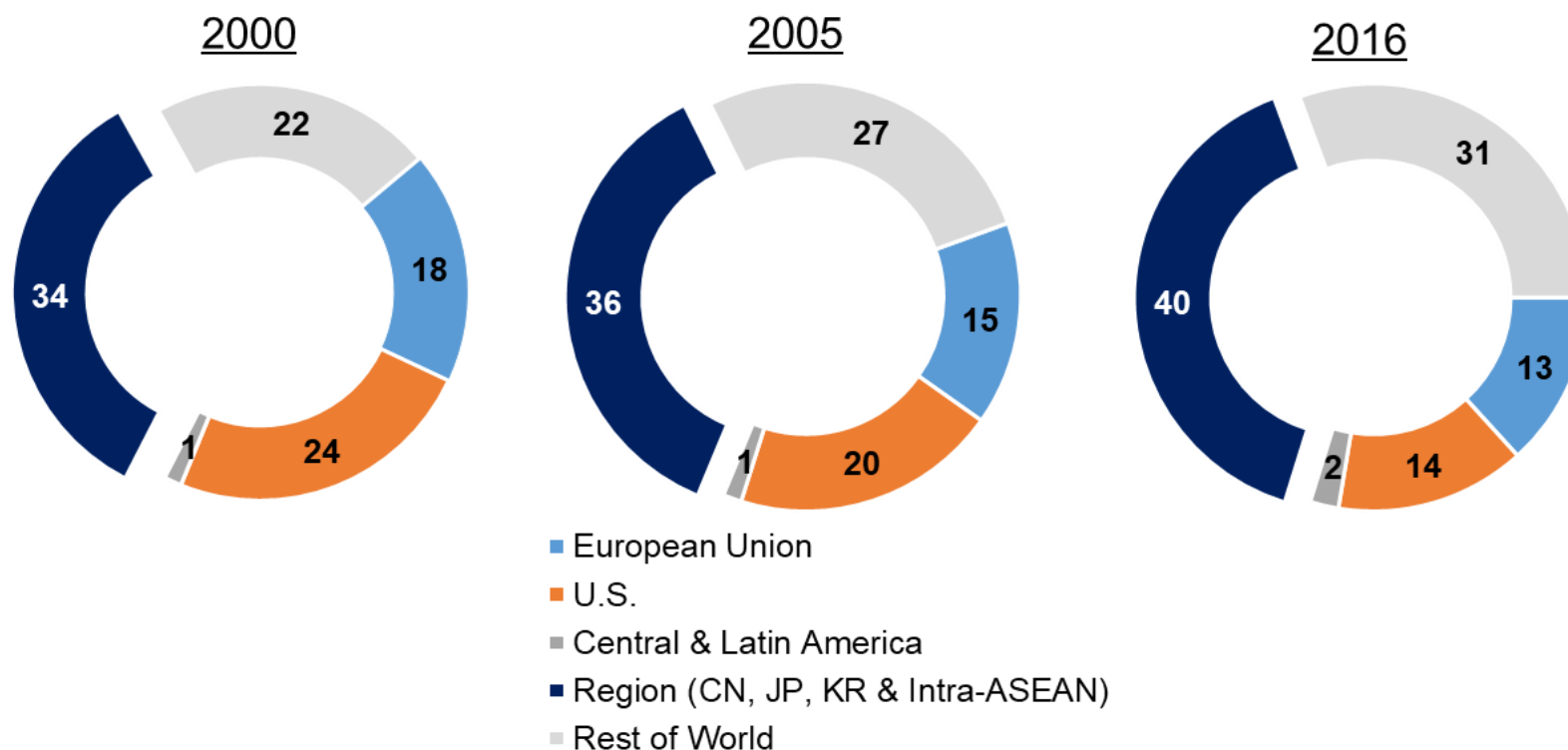
Note: Based on a hypothetical drop in China's exports to the U.S. of USD100 billion, and a corresponding proportional drop in U.S. exports to China of USD30 billion.

Source: National Authorities, OECD, IFS and AMRO staff estimates

On a positive note, growing intra-regional demand and absorption of regional value-added exports could cushion partially the impact of protectionism on GVCs that are oriented towards demand outside the region.

- CPTPP will result in further tariff reductions and decelerate the pace of new non-tariff barriers*

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



ASEAN+3 Economies in Business and Credit Cycles

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				

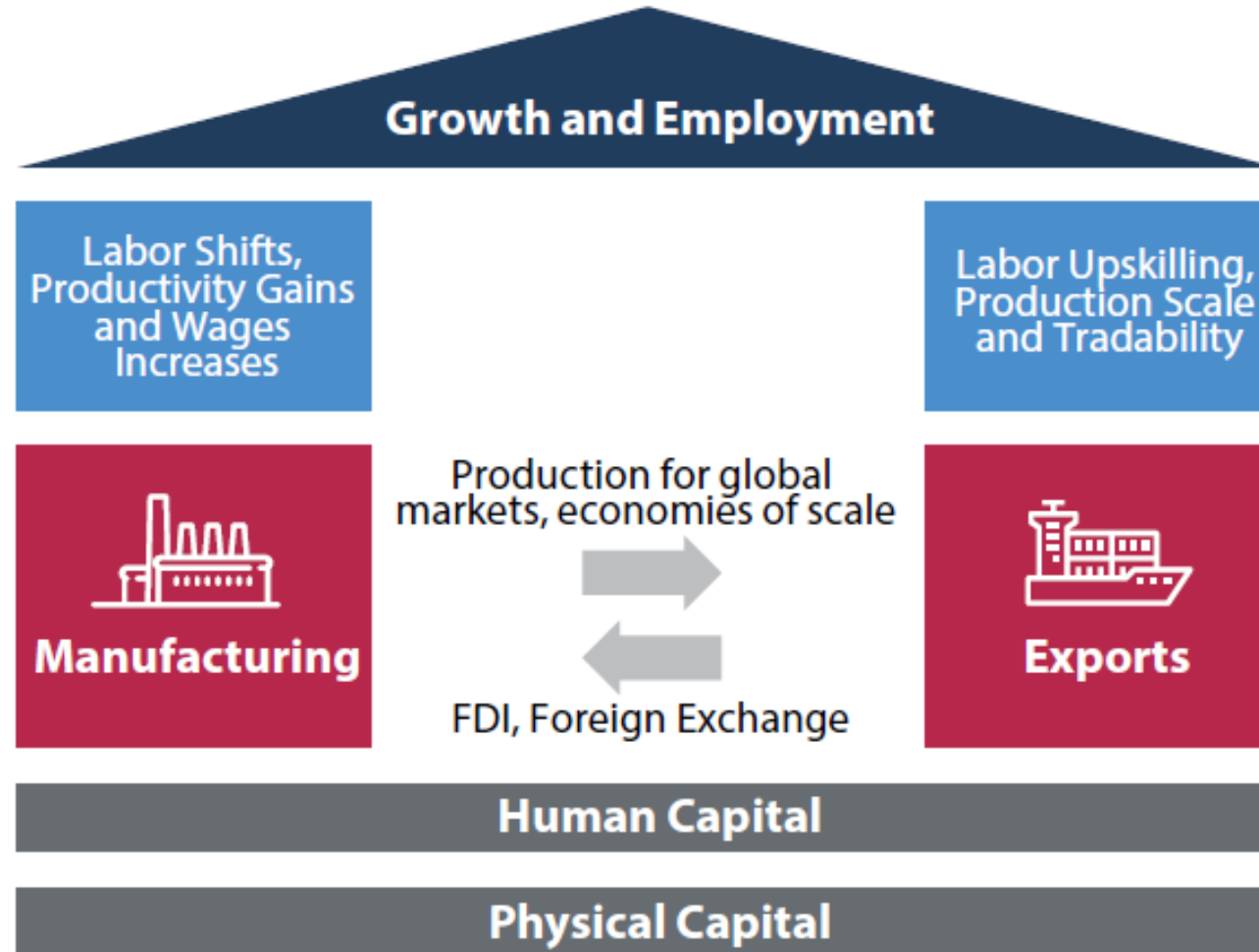
Monetary Policy	<ul style="list-style-type: none">• Accommodative, but global tightening will constrain policy space.• Tightening bias where economies do not need further stimulus and/or where external imbalances are building up.• Exchange rate flexibility can continue to cushion impact of external shocks
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.
Macropprudential 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.

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 the three “waves” of countries
- Key challenges moving forward:
 - 1 Changes in cross-border production, trade and technology – Challenging growth and jobs
 - 2 Changing role of services sector – More than just enabling growth?
 - 3 Implication for 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.



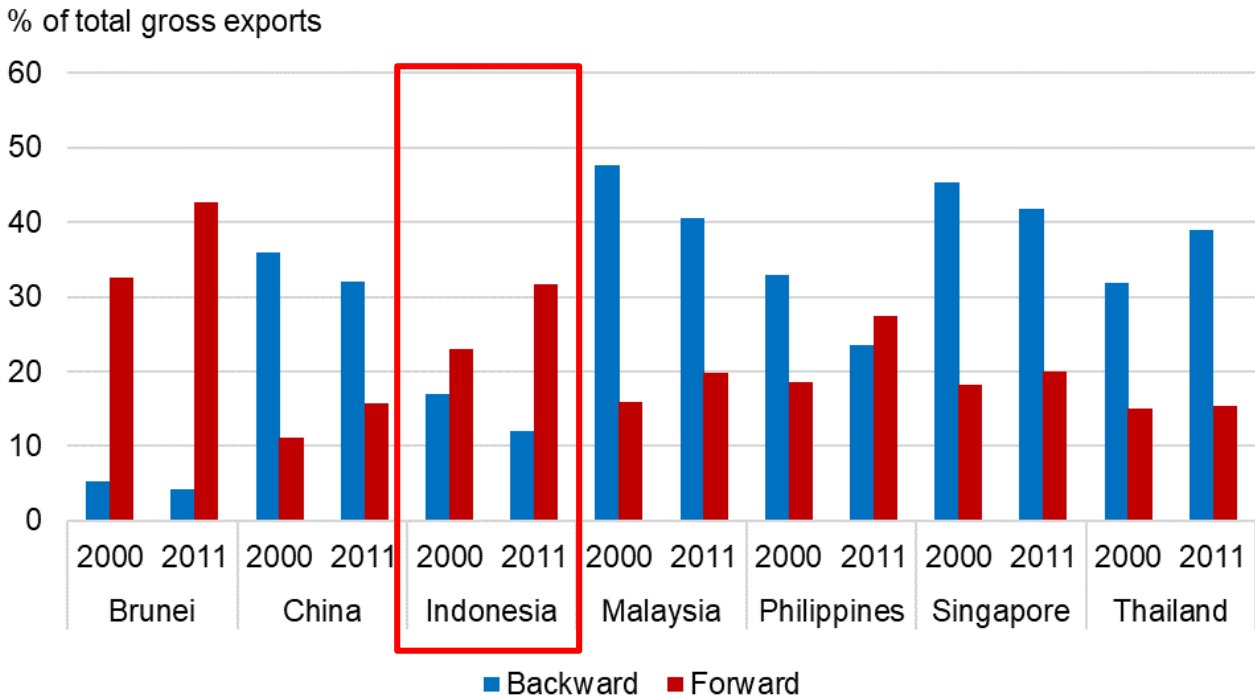
	Reinforcing Factors	Challenges
A GVCs	<ul style="list-style-type: none"> Integrated region becomes more competitive Eased entry into global trade for developing ASEAN 	<ul style="list-style-type: none"> Plateaued with enhanced domestic production Amplified transmission of shocks through whole supply chain across the region
B 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
C 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)
Regional Integration	<ul style="list-style-type: none"> Growing intra-regional demand for goods and services (including fast-growing sectors like tourism) Ample resources and knowhow, including Belt and Road Initiative (BRI) 	<ul style="list-style-type: none"> Domestic considerations (e.g. pace of intra-regional labor mobility?)

- A

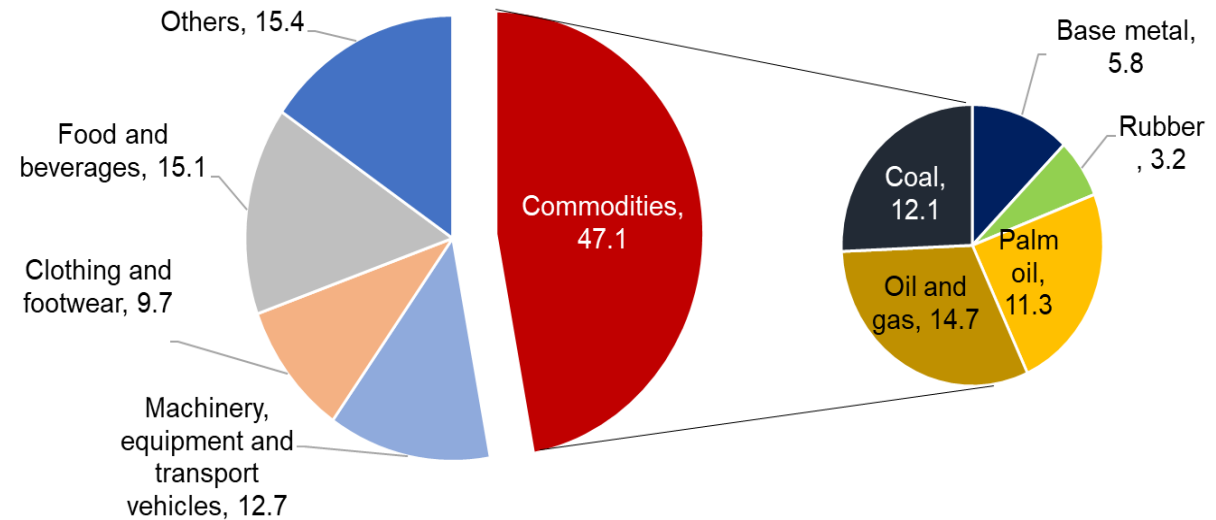
Indonesia’s exports are mostly commodities used as inputs to be sent to third countries for further processing and exports (i.e. greater forward linkages in the GVC).

 - There is potential for greater export diversification (e.g. further develop the downstream resource-based manufacturing industries, such as food and agriculture products).

GVC Participation Index



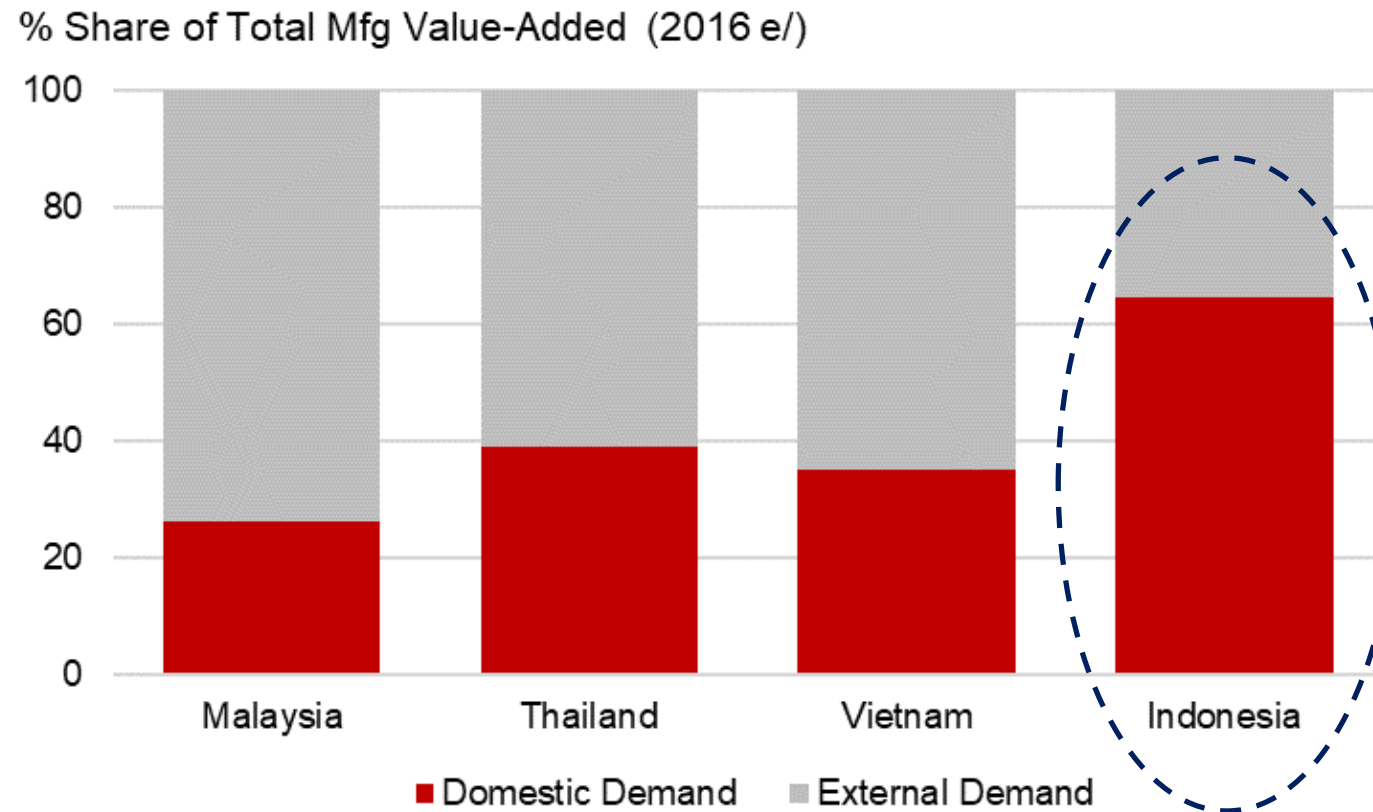
Indonesia's Export Structure (% of Gross Exports)
Average 2012-17



Apart from being predominantly a commodity exporter, the manufacturing sector in Indonesia is more domestic-oriented, reflecting the country's large consumption base.

- This is unlike neighboring Malaysia and Thailand, which has large external-oriented manufacturing sector.

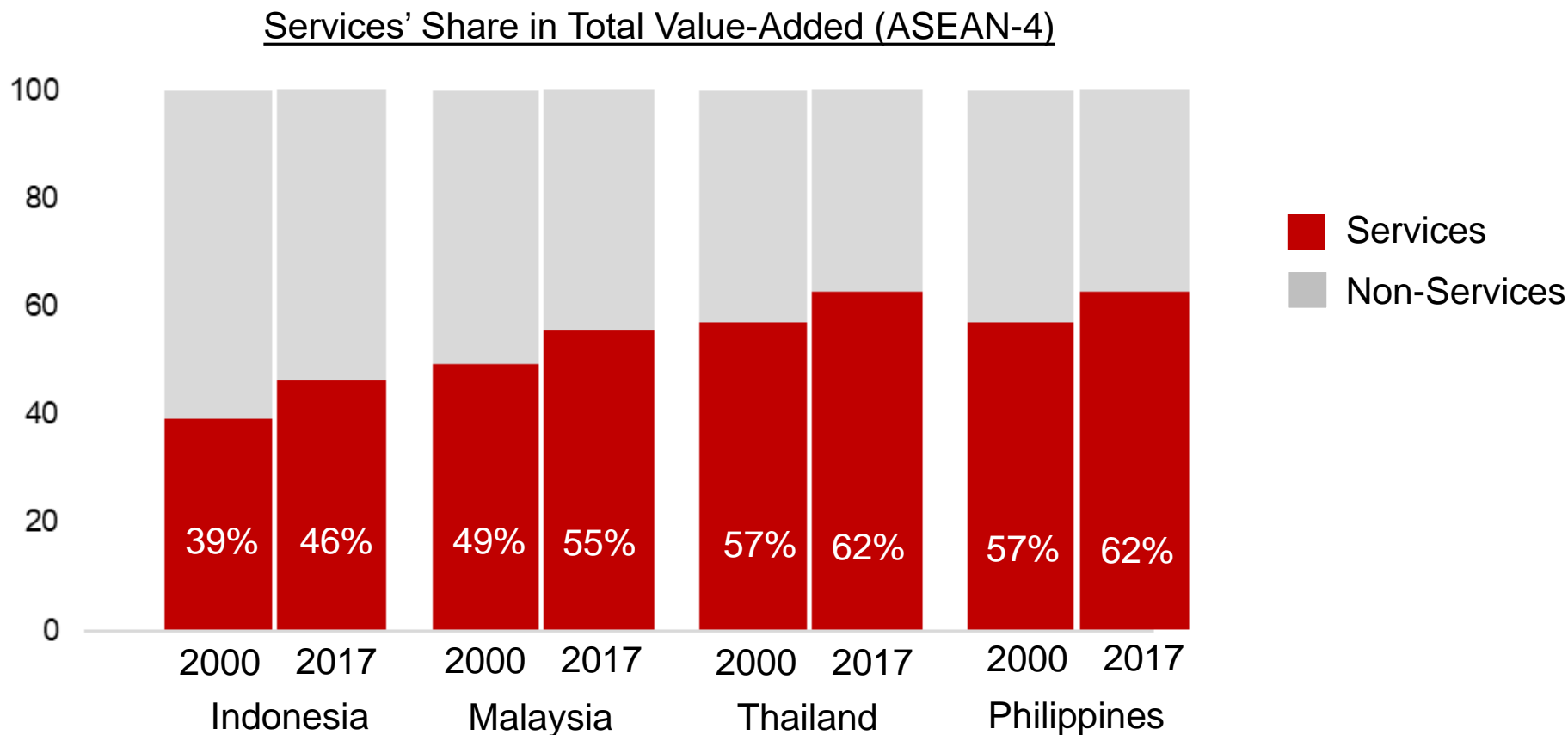
Share of Manufacturing Value-Added by Sources of Final Demand



B

In most regional economies, the services sector is growing rapidly, underpinned by the rising middle class, and growing demand for modern services (e.g. financials & telecoms)

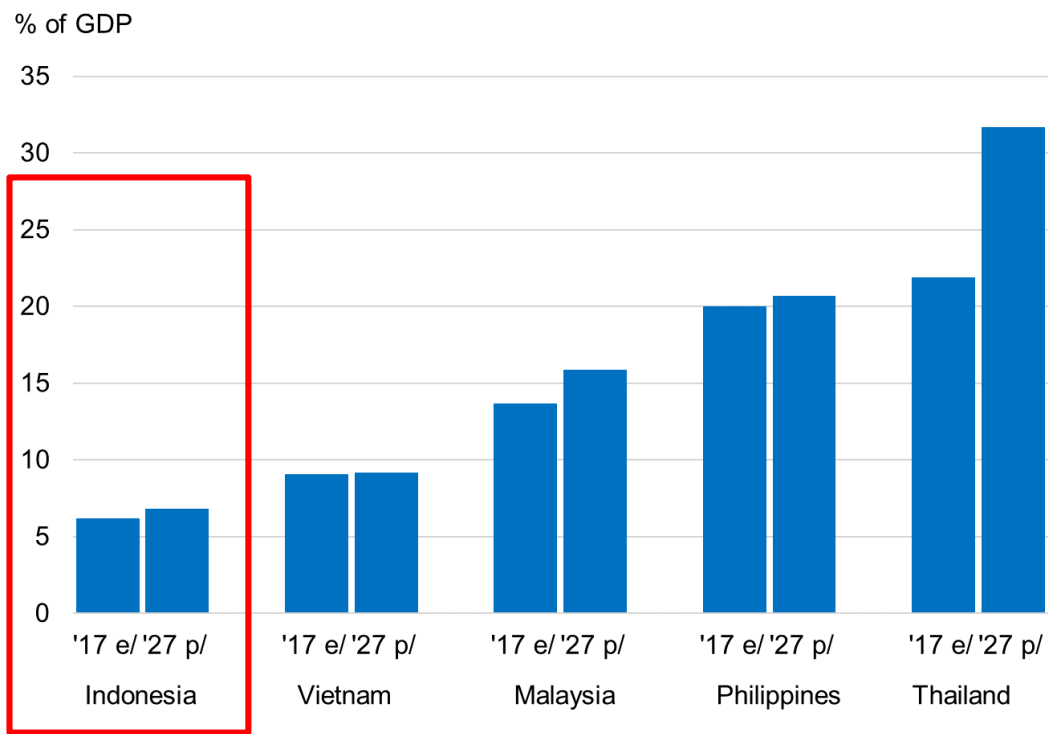
- Indonesia's share of service sector value-added has increased by a sizeable 7 ppts (to 46% of GDP), since 2000.



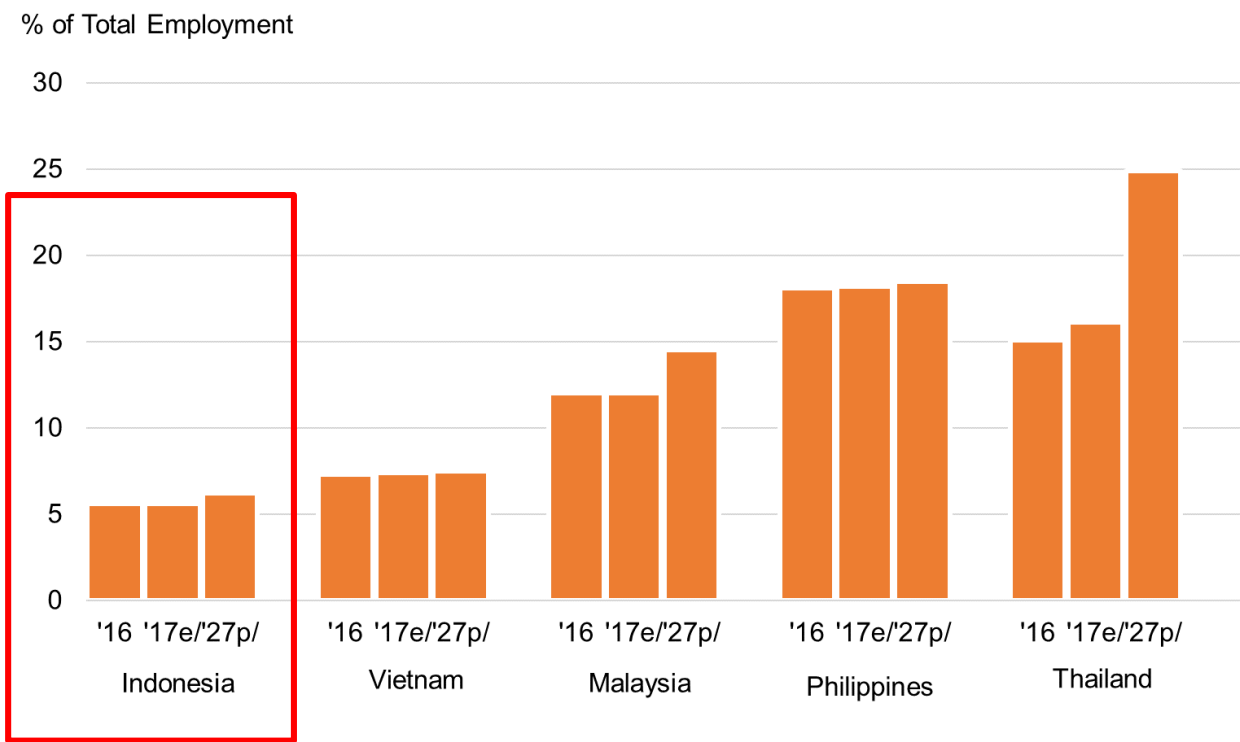
Tourism Sector: A Potential Growth Driver

For example, while Indonesia’s tourism sector contribution to GDP is modest by comparison with other ASEAN peers, this sector has tremendous potential for growth.

Travel and Tourism Sector’s Contribution to GDP



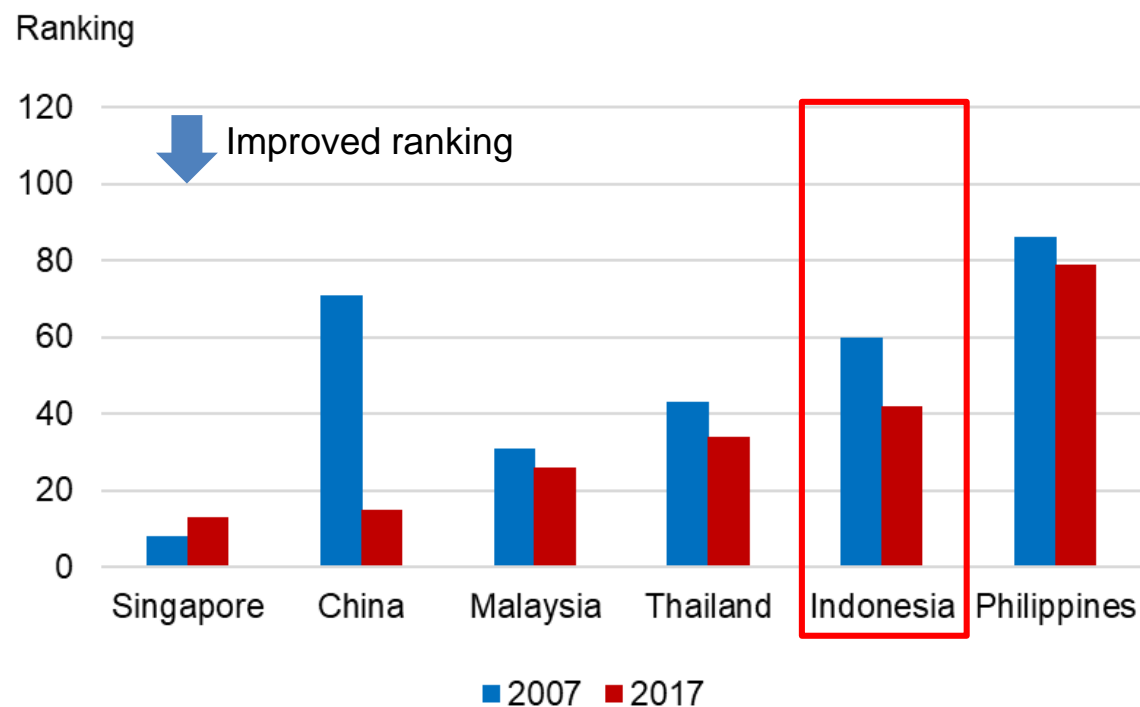
Travel and Tourism Sector’s Contribution to Employment



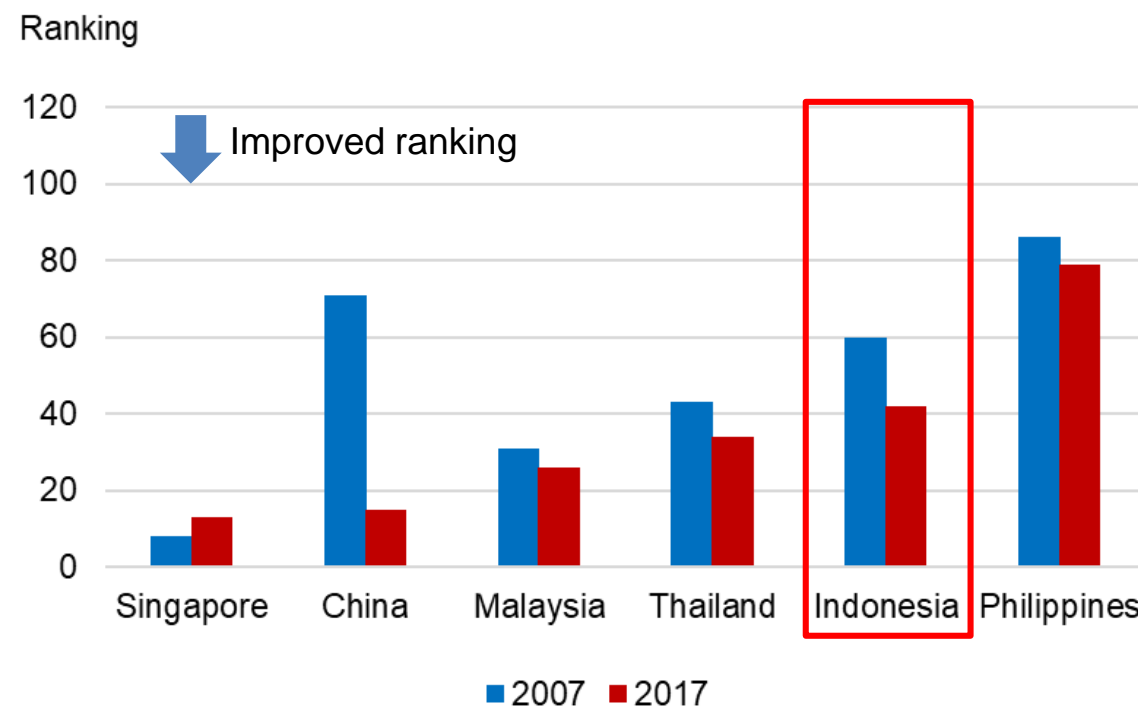
Encouragingly, as compared to other regional peers, Indonesia's tourism competitiveness index has improved significantly over the past 10 years.

- This is in tandem with the improvement in the quality of infrastructure index, such as improved transport infrastructure and connectivities.

Index of Tourism Competitiveness



Index of Overall Quality of Infrastructure



C

With advances in technology, some segments of the services sector are becoming more tradable and commoditized, helping to raise productivity and foster growth (the so-called “uberization” of services (e.g. taxi and tourist accommodations)).

- Indonesia’s *Gojek* (a ride-hailing app) is a good example of how the sharing economy is accelerating, while also spurring the growth of other sectors.

The “Gojek” Effect



Promotes job creation



Creates new demand for services



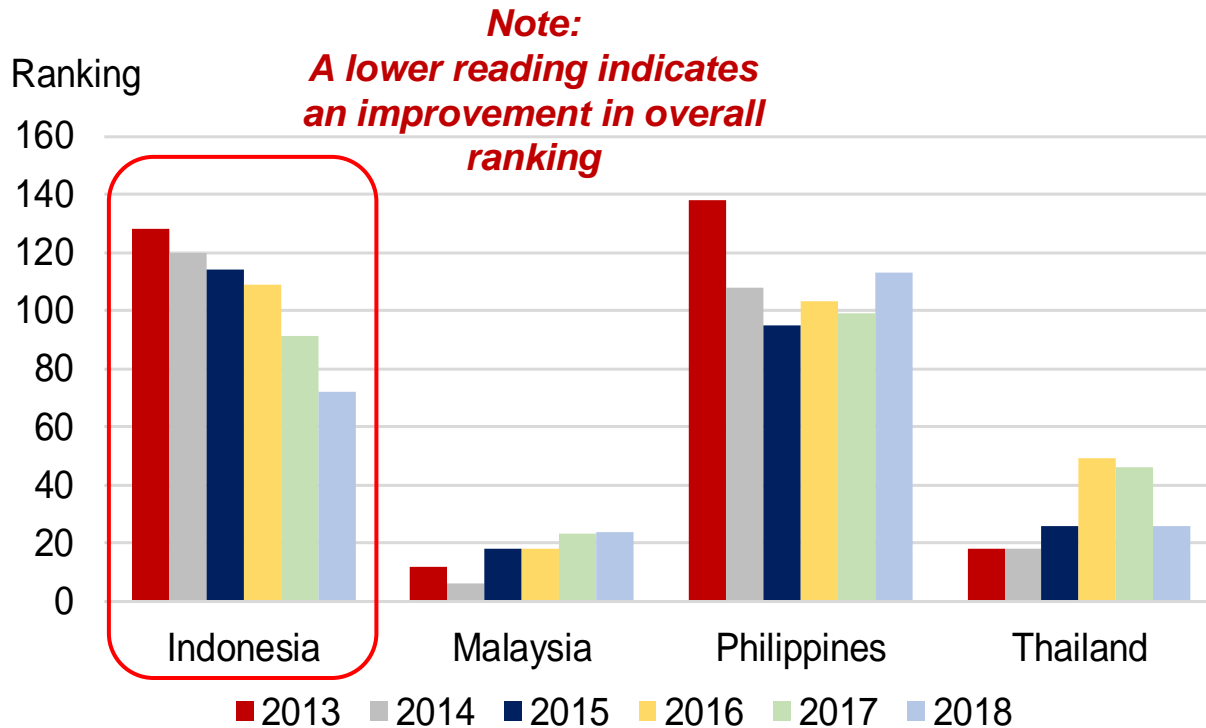
Introduces competition in domestic markets



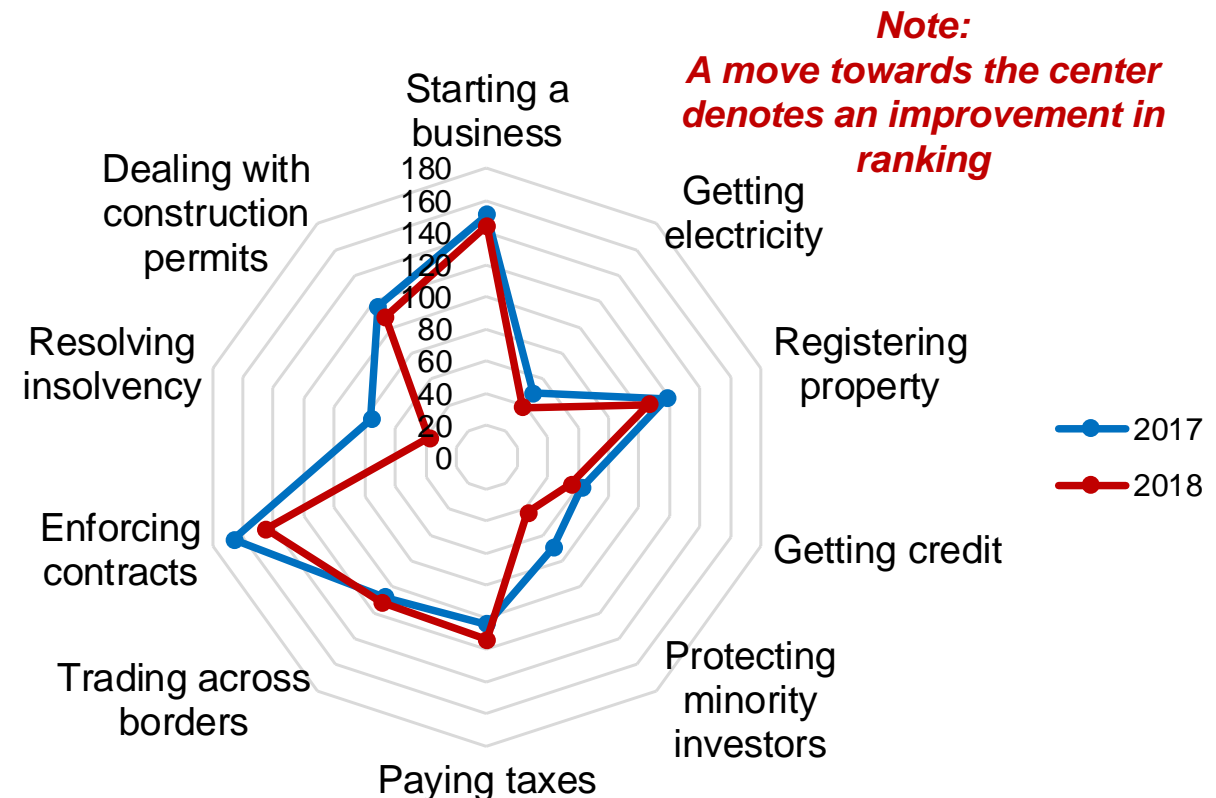
Support growth of SMEs, and foster micro-entrepreneurs, and other service sectors (e.g. mobile payment services)

Looking ahead, sustained improvement in competitiveness ranking for ease of doing business in Indonesia helps in promoting a conducive business climate, while fostering innovation and creative new industries.

Overall Ranking: Ease of Doing Business (ASEAN-4)

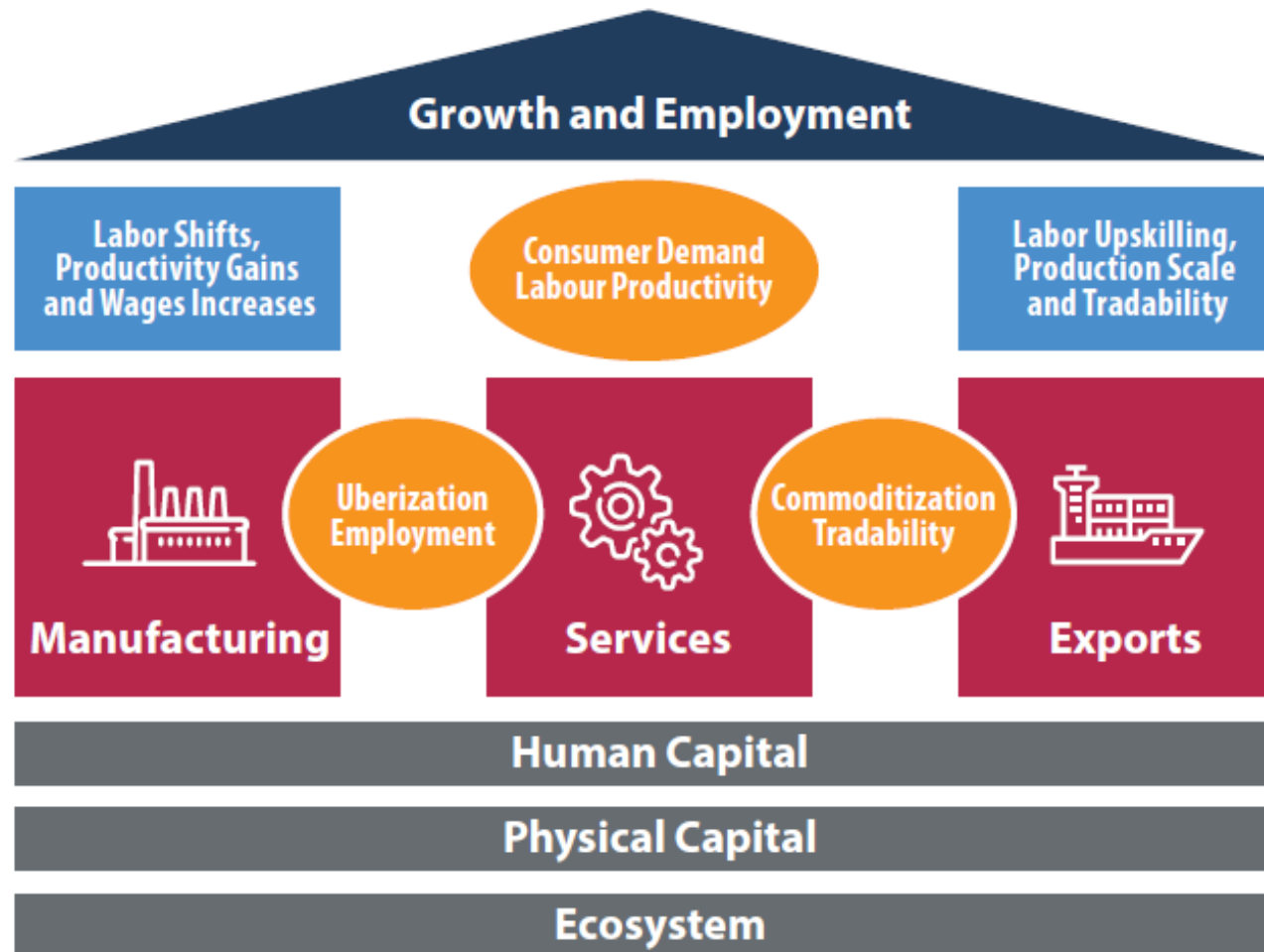


Indonesia: Ranking of Ease of Doing Business by Components



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.



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

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

- ***Improve connectivity***

Through greater investment in domestic and intra-regional infrastructure, improving trade facilitation to maximize benefits of GVCs and spur tourism in the region.

- ***Address challenge posed by technology and automation to low-skilled unemployment.***

Through comprehensive policy mix including labor force upskilling, tapping on immigration to leverage on skilled labor across the region, and targeted education policies.

- ***Exploit opportunities and efficiency brought by technology to the services sector.***

Through policies to boost innovation in services (e.g. BPO, tourism)

Thank You

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