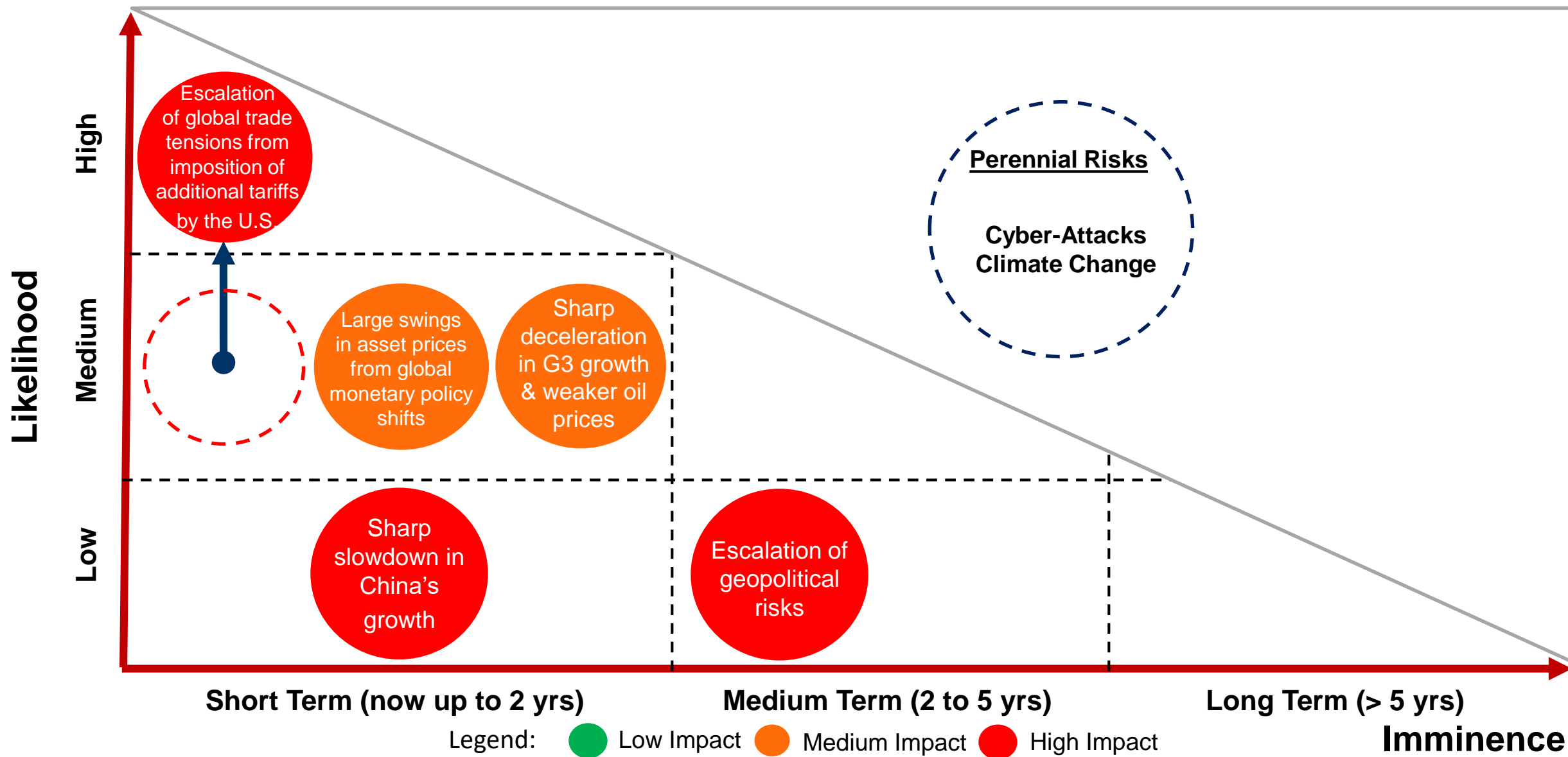


ASEAN+3 Regional Economic Outlook 2019: Building Capacity and Connectivity for the New Economy

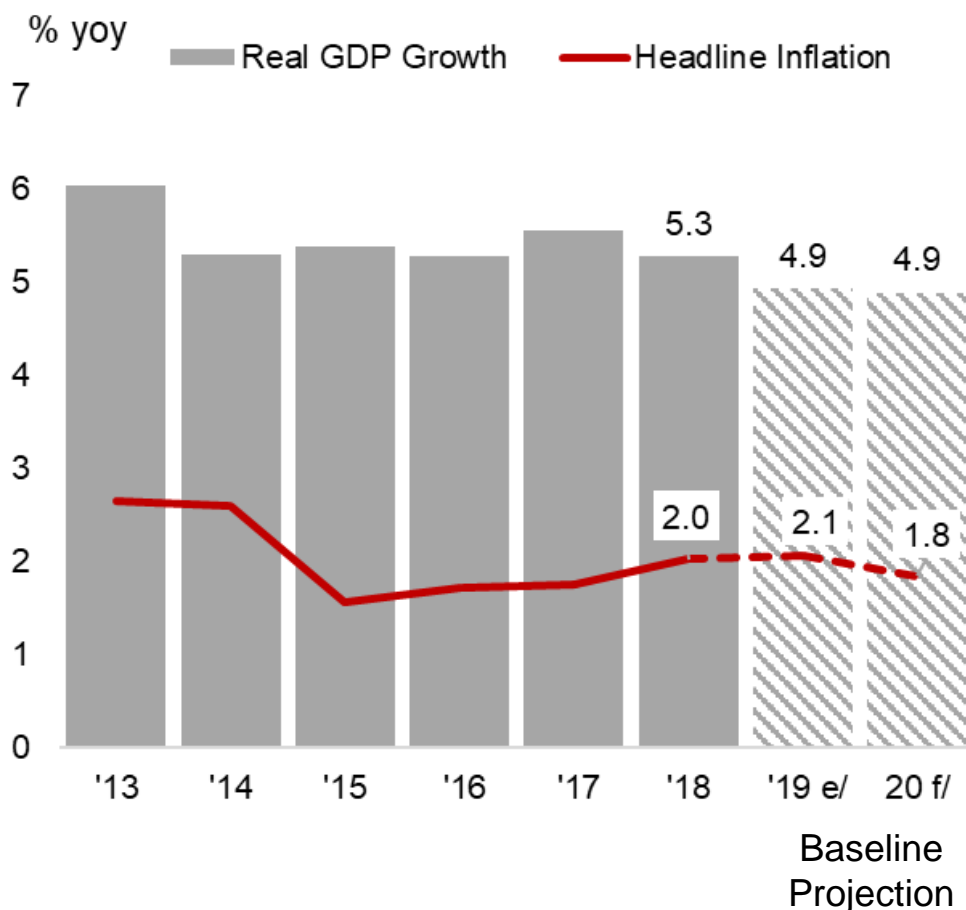
18 June 2019
Jakarta, Indonesia

Disclaimer: The findings, interpretations, and conclusions expressed in this material represent the views of the author(s) and are not necessarily those of the ASEAN+3 Macroeconomic Research Office (AMRO) or its member authorities. Neither AMRO nor its member authorities shall be responsible for any consequence of the use of the information contained therein.















- 1 | Near Term Macroeconomic Prospects & Challenges**
- 2 | Longer Term Structural Shifts:
Building Capacity and Connectivity for the New Economy**






Regional growth in 2019-20 is expected to moderate slightly, below 5%, taking into account the re-escalation of global trade tensions and earlier policy support



AMRO's Revised Baseline Growth Estimates for 2019-20 (Jun '19)

Real GDP Growth (% y/y)	'18	'19 e/	'20 p/	Average '19 – '20
		Jun '19		Adverse Trade Scenario (Prelim)
China	6.6	6.2 	6.1 	5.9
Japan (FY)	0.6	0.5 	0.5 	0.4
Korea	2.7	2.4 	2.4 	2.1
ASEAN-4 & VN	5.1	5.0 	5.0 	4.9
BCLM	6.7	6.8 	6.9 	6.9
HK & SG	3.1	1.7 	2.0 	1.3
ASEAN+3	5.3	4.9 	4.9 	4.7

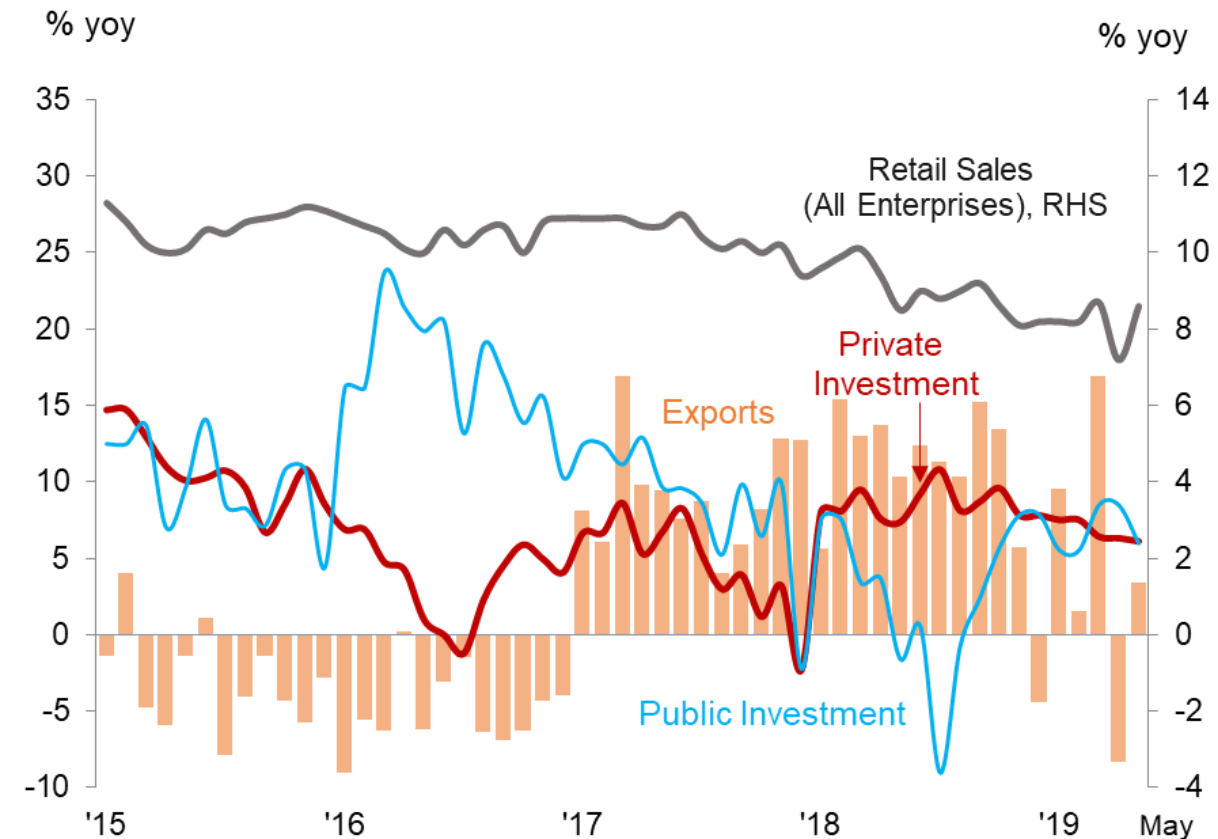
Legend:  Upward revision from AREO 2019 (May)
 Downward revision from AREO 2019 (May)
 No change from AREO 2019 (May)

Domestic demand in the region has moderated in Q1 2019, after a robust growth in early 2018. In China, recent indicators in April-May suggest a somewhat mix outlook

ASEAN-4 and Korea: Aggregate Final Domestic Demand



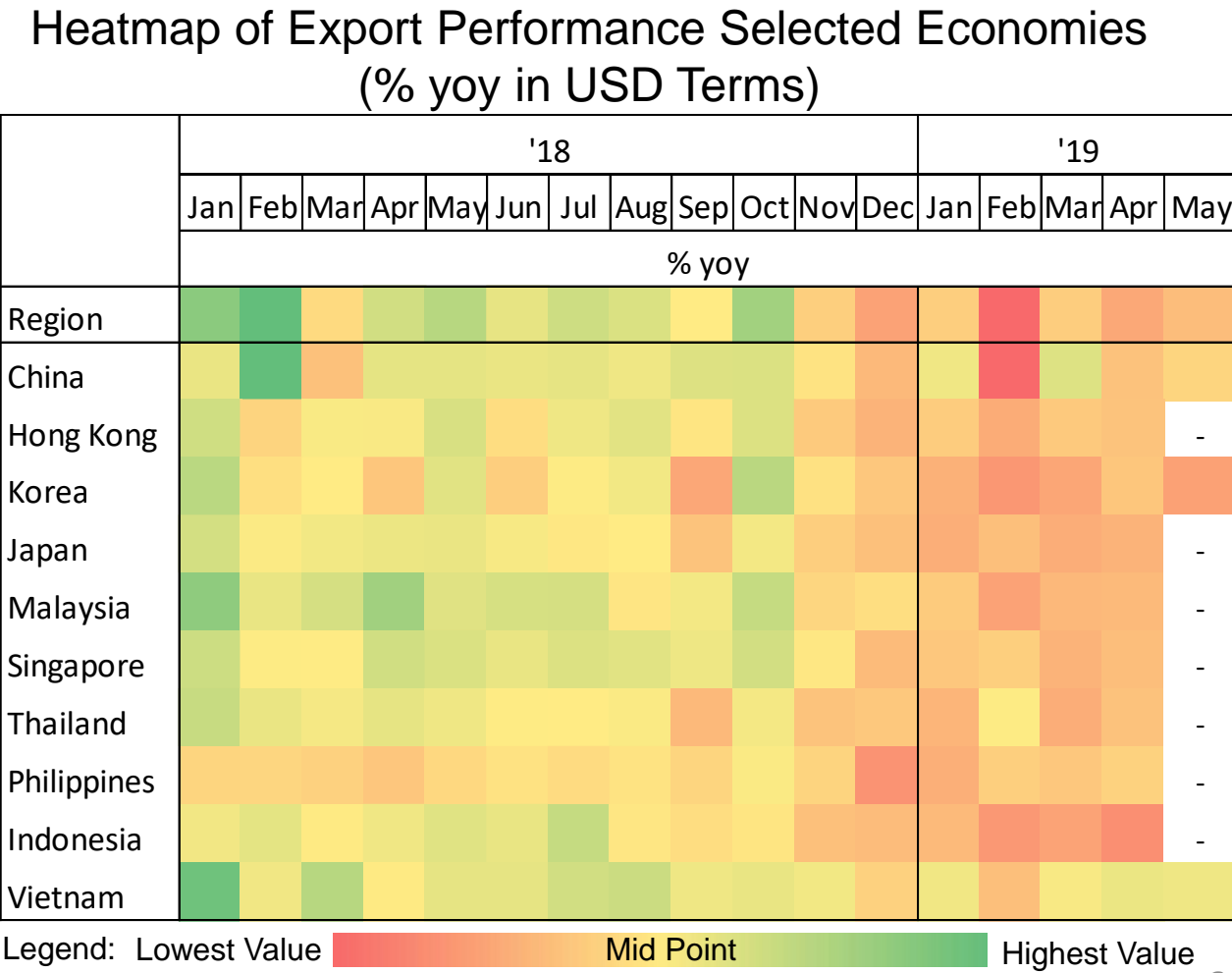
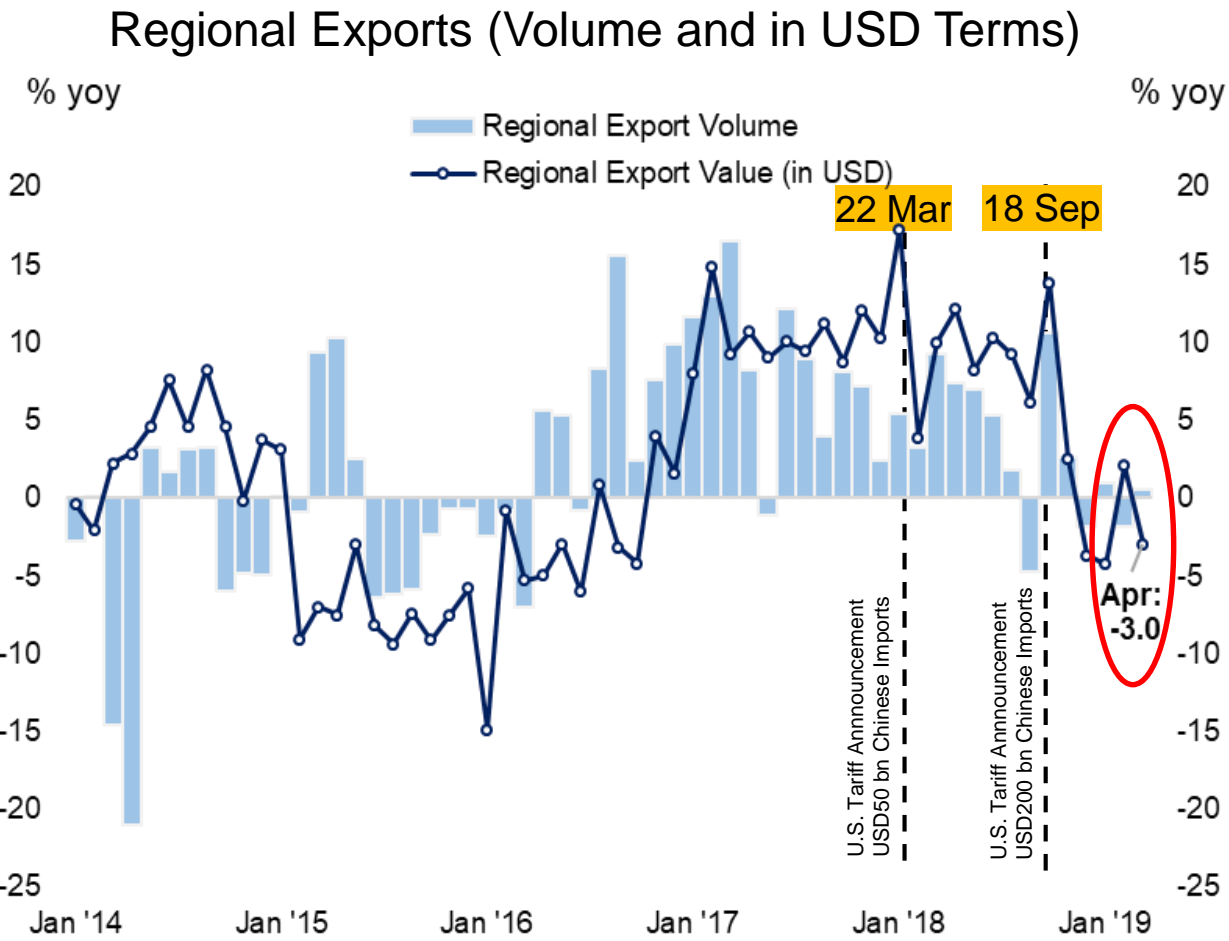
China: Domestic Demand Indicators



Source: National Authorities, AMRO

Note: Final domestic demand excludes changes in inventories

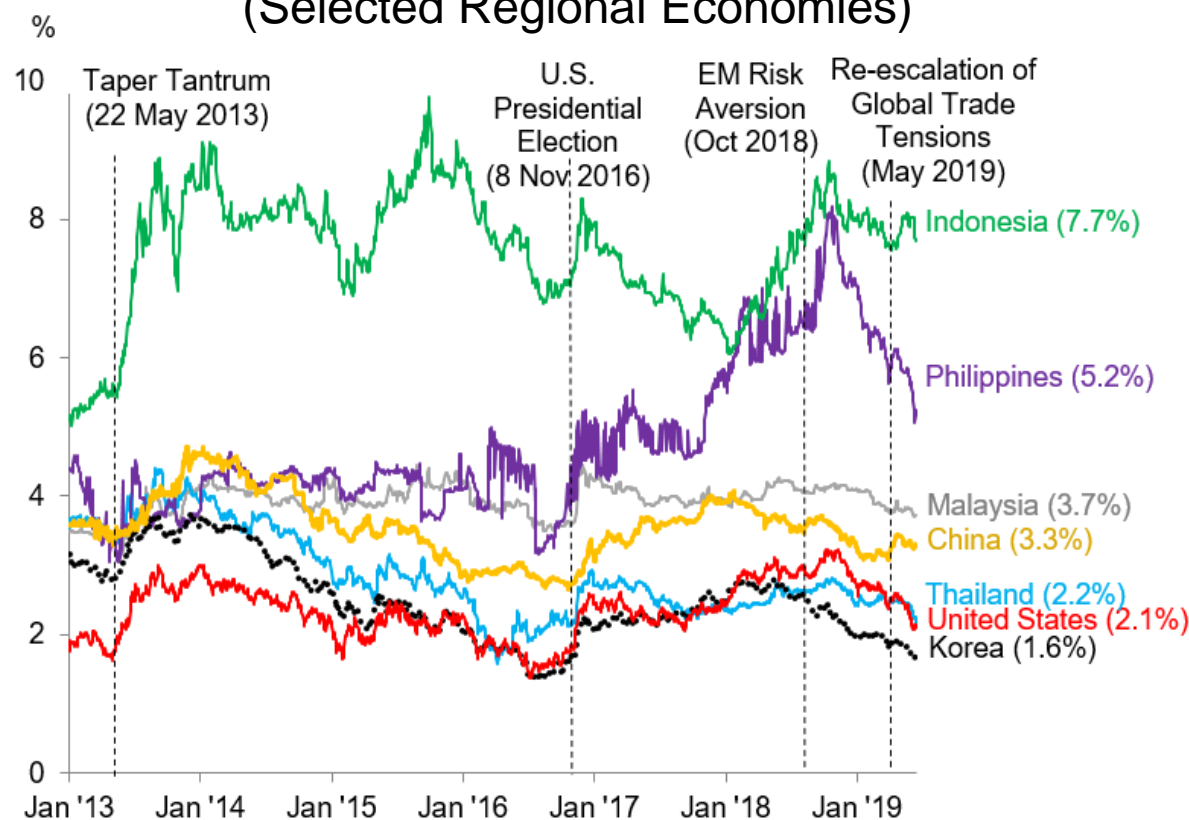
Regional exports contracted in Q1 2019, with latest April-May data indicating further weakness



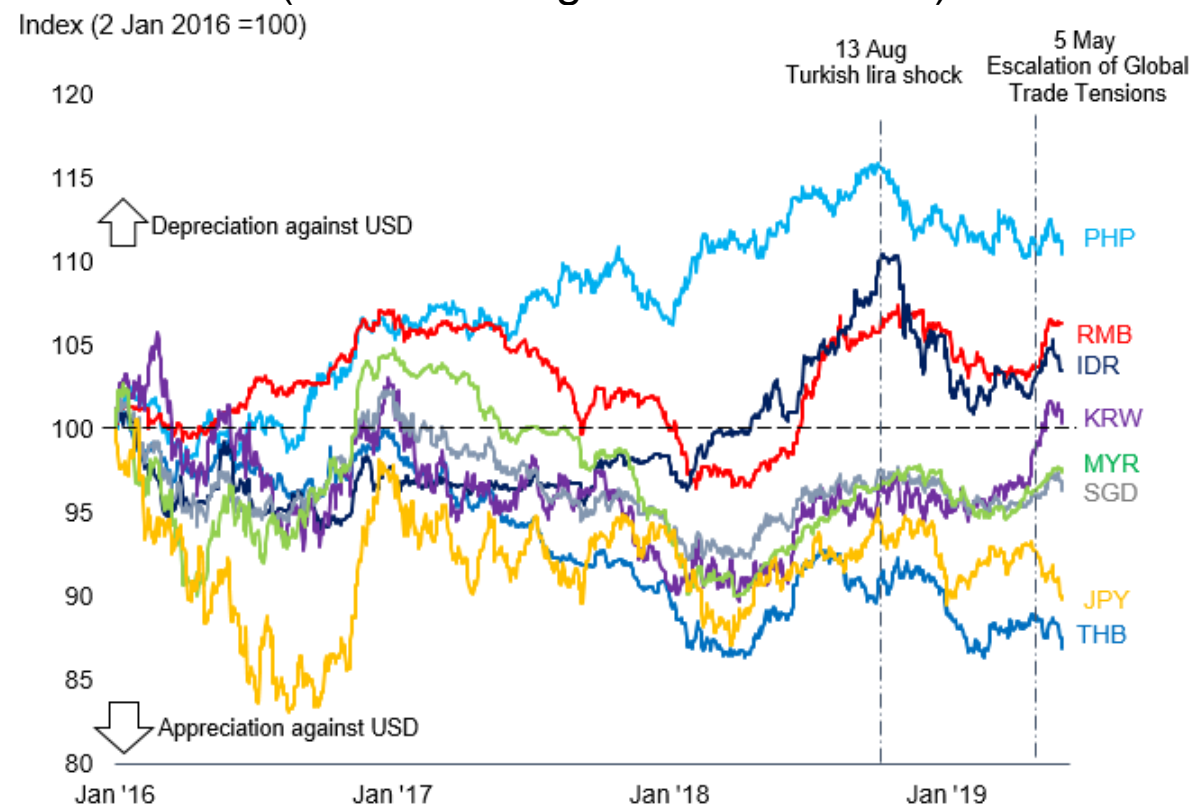
Source: National authorities, Haver Analytics

Borrowing costs have largely declined post May 5, as major global central banks signalled more easing ahead. The KRW has weakened the most amongst regional EM peers

10Y Sovereign Yields
(Selected Regional Economies)



FX Performance
(Selected Regional Economies)

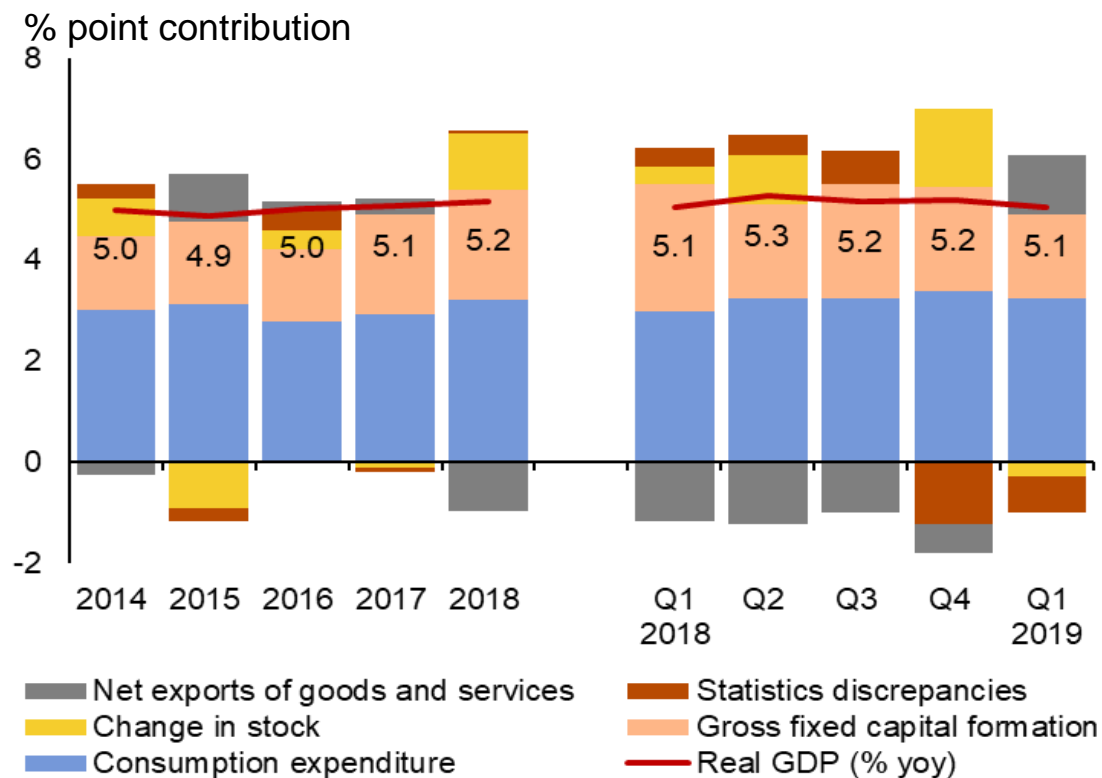


Source: National authorities, AMRO

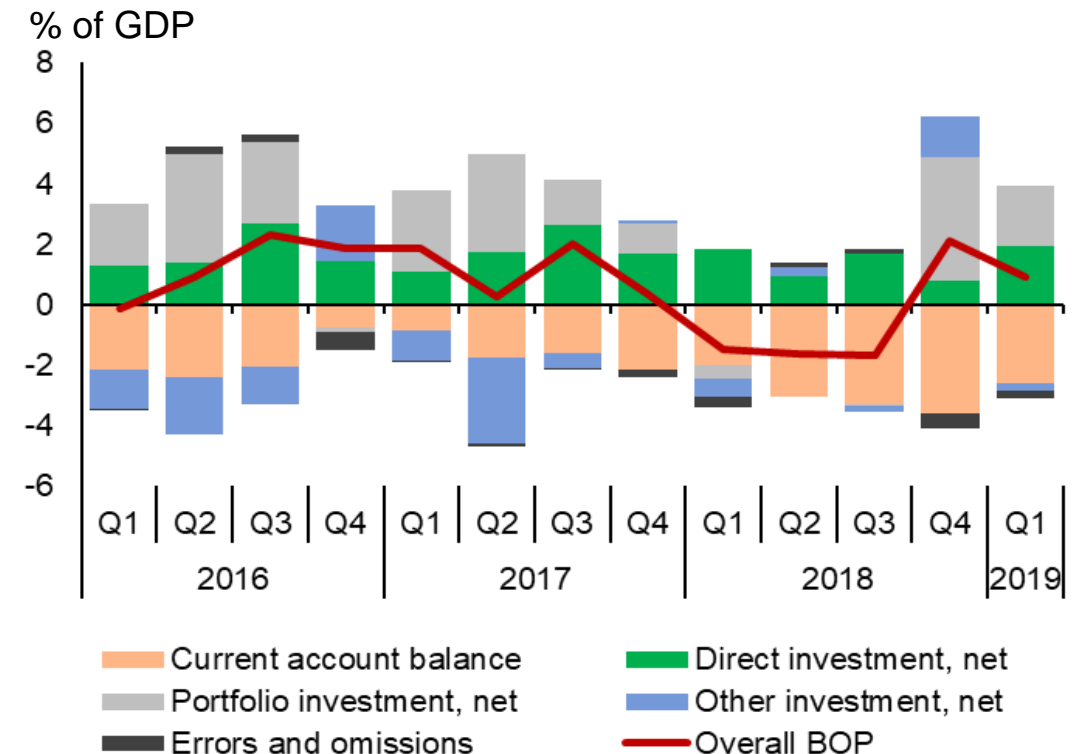
Notes: Data as of 14 June 2019

Growth is expected to remain strong, underpinned by solid domestic demand. Overall BOP has reversed to a surplus on rebounding capital inflows amidst persistent current account deficits.

GDP Growth

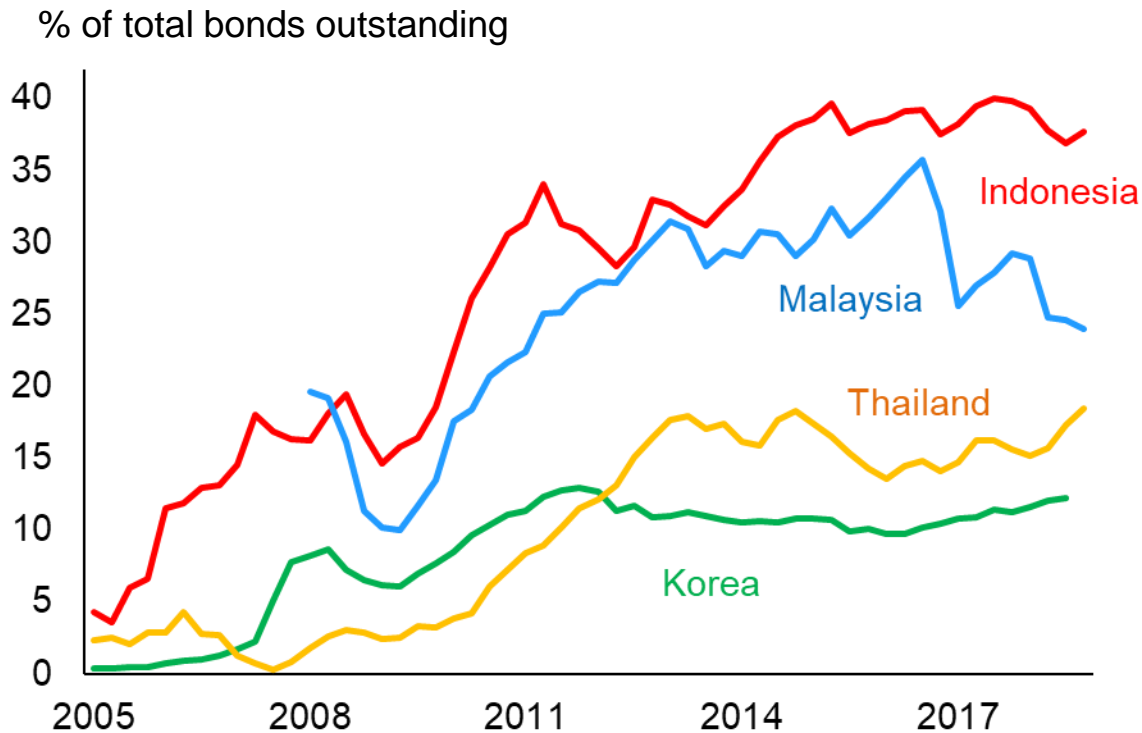


Overall Balance of Payments

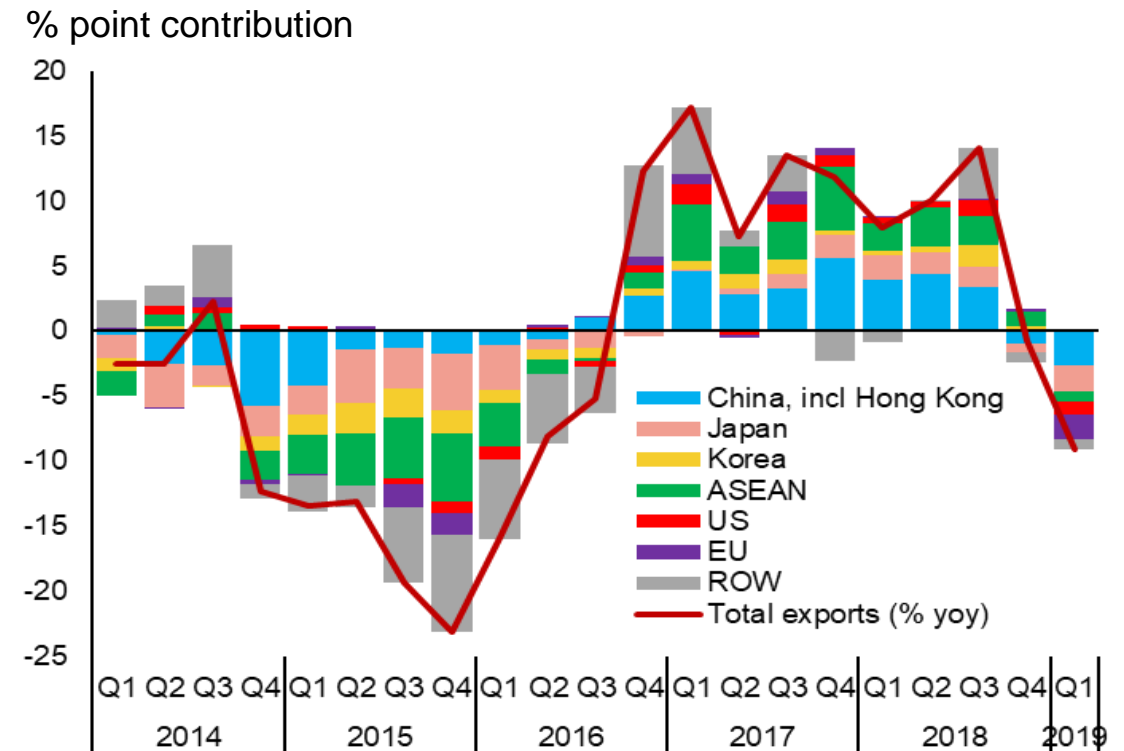


Risks of capital flow reversal remain intact, while a weaker global outlook and re-escalation of global trade tensions could weigh further on exports.

Foreign Holding of LCY Government Bonds



Contribution to Export Growth: by Destination



Most economies are in the mid-phase of the business cycle, with slowing phase of the credit cycle and moderate property price valuations

		Business Cycle					
		Early	Mid	Late	Downturn		
Credit Cycle	Recovery		Indonesia			Low	Property Valuation Cycle
			Malaysia			Moderate	
			Thailand			High	
			China			N.A.	
	Expansionary	Brunei Myanmar	Cambodia				
	Slowing		Philippines Singapore Vietnam	Japan		Moderate	
			Korea Hong Kong			High	
			Lao PDR			N.A.	
	Contractionary						

Source: AMRO staff estimates.

Note: In Korea's case, the analysis on property valuations focuses on Seoul and its surrounding areas, which has recorded high year-on-year growth in prices.

Policy mix is broadly appropriate with some recalibration to support growth

Suggested Policy Mix

Monetary

- Some room to ease policy given benign inflation
- For economies with external vulnerabilities, to hold current policy settings

Fiscal

- Maintain supportive policy to sustain growth
- Reprioritizing spending, where fiscal rule is binding

Macroprudential

- Maintain current tight policy to guard against build up of financial imbalances

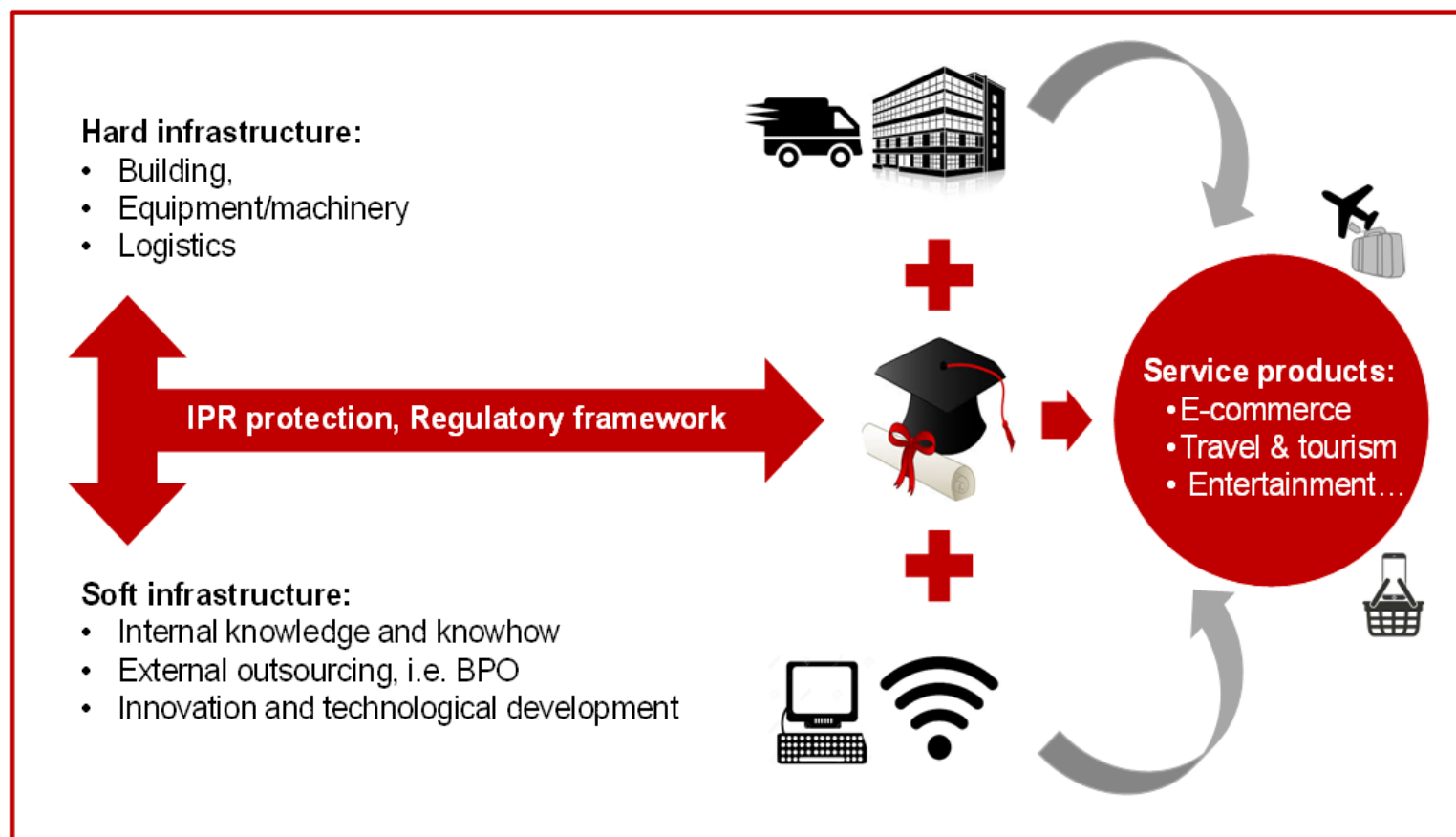
Structural

- Building capacity and connectivity to foster future growth potential and resilience

- 1 | Near Term Macroeconomic Prospects & Challenges
- 2 | **Longer Term Structural Shifts:
Building Capacity and Connectivity for the New Economy**

1 Technology (e.g. 4IR) – A growth enabler for services/new economy

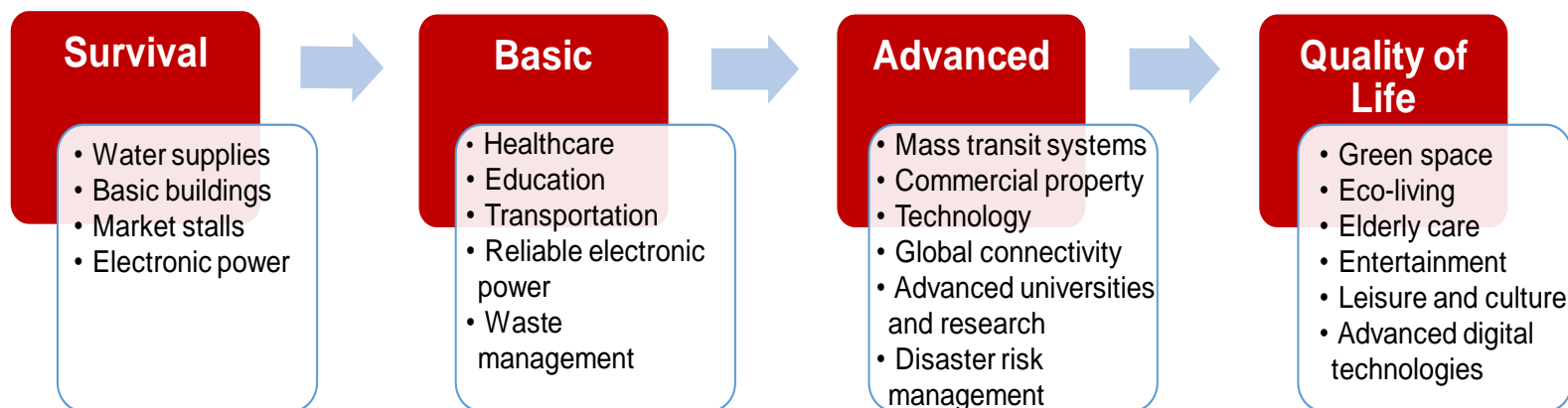
Services Value Chains in the New Economy: Stylized Representation



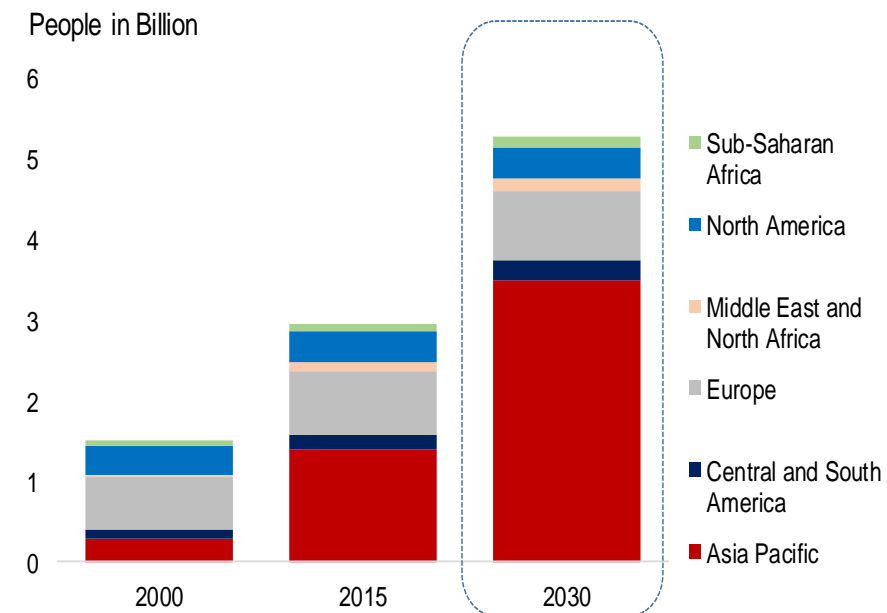
2

Maturing population & rising middle class – Driving new demand

Infrastructure Needs for Demographic Shifts Alongside Economic Development



Global Middle Class Population

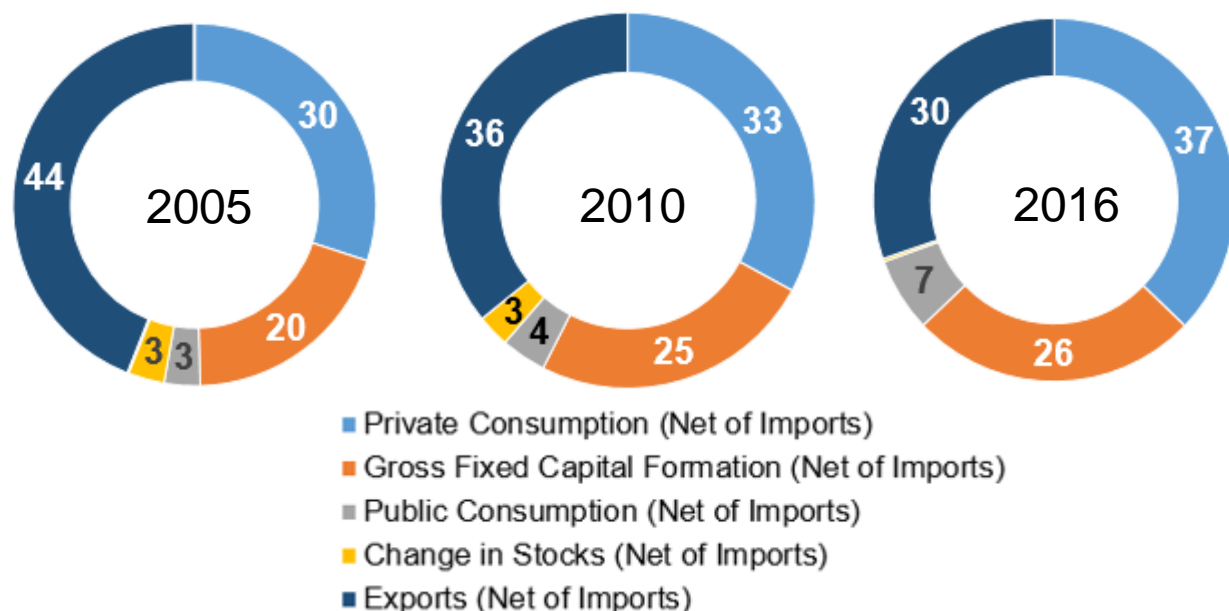


2

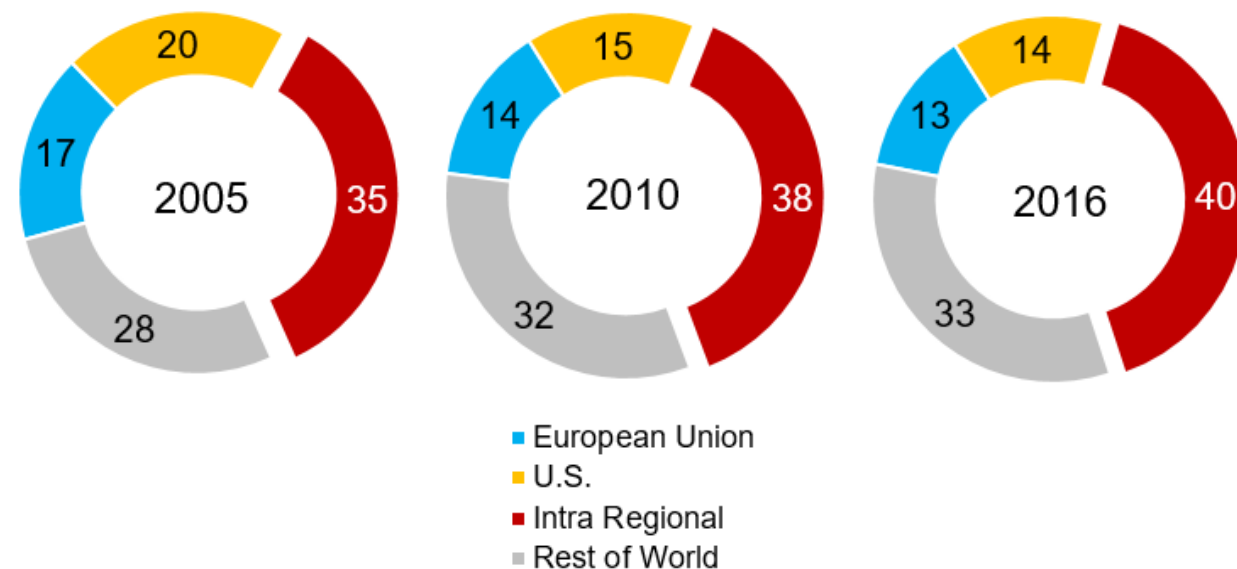
Growth rebalancing & regional integration – Driving regional demand

ASEAN-4 and Vietnam

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

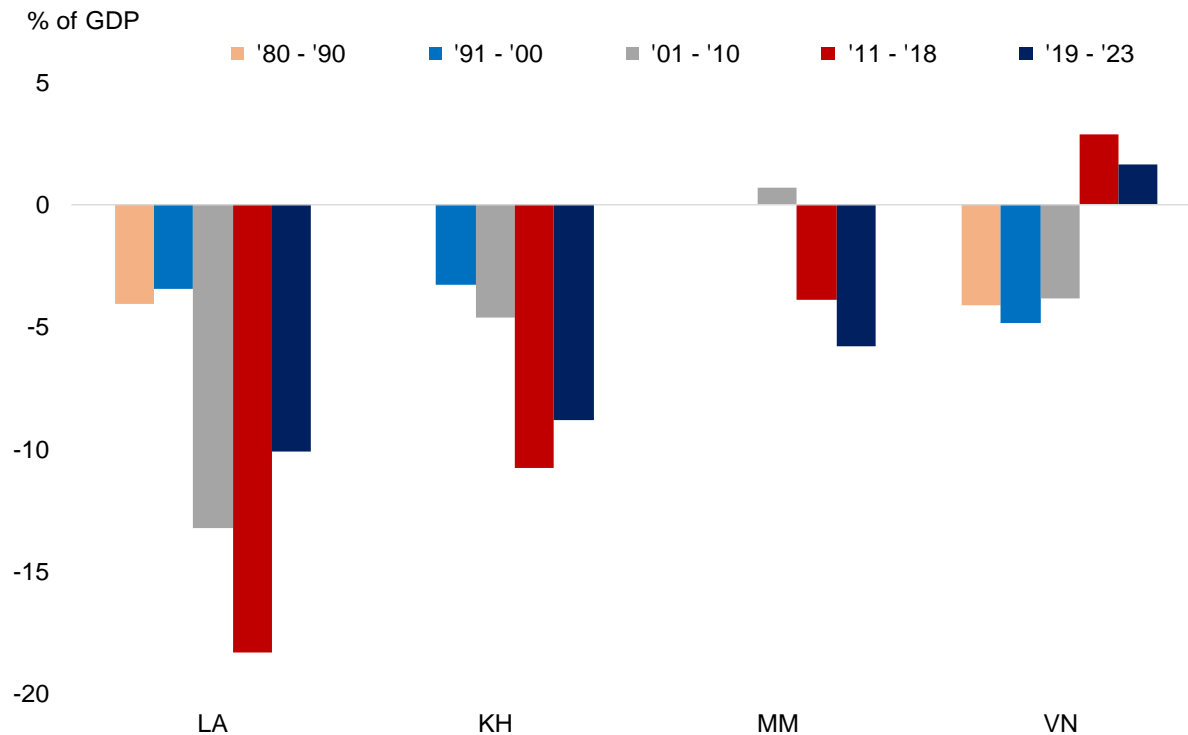


ASEAN's Value-Added Exports
(% Share, by Major Destinations)

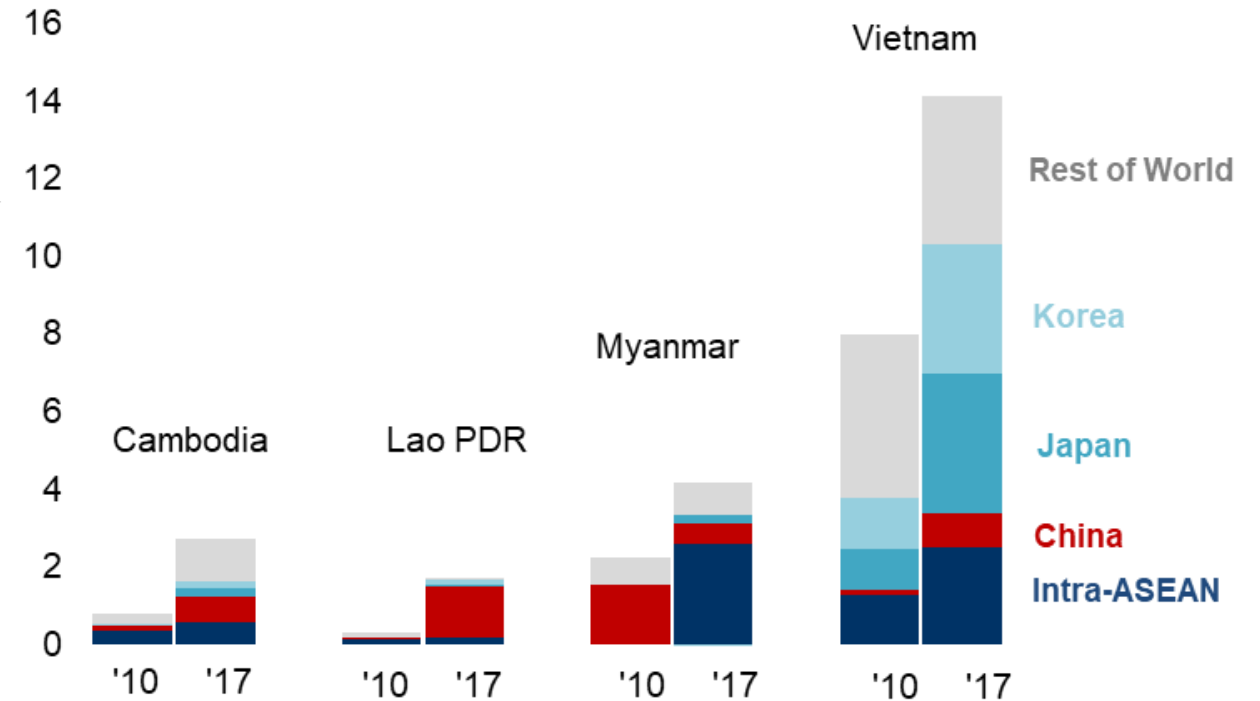


Funding Gap in CLMV countries – Low savings rate, but high investment needs

Current Account Balance:
CLMV Economies

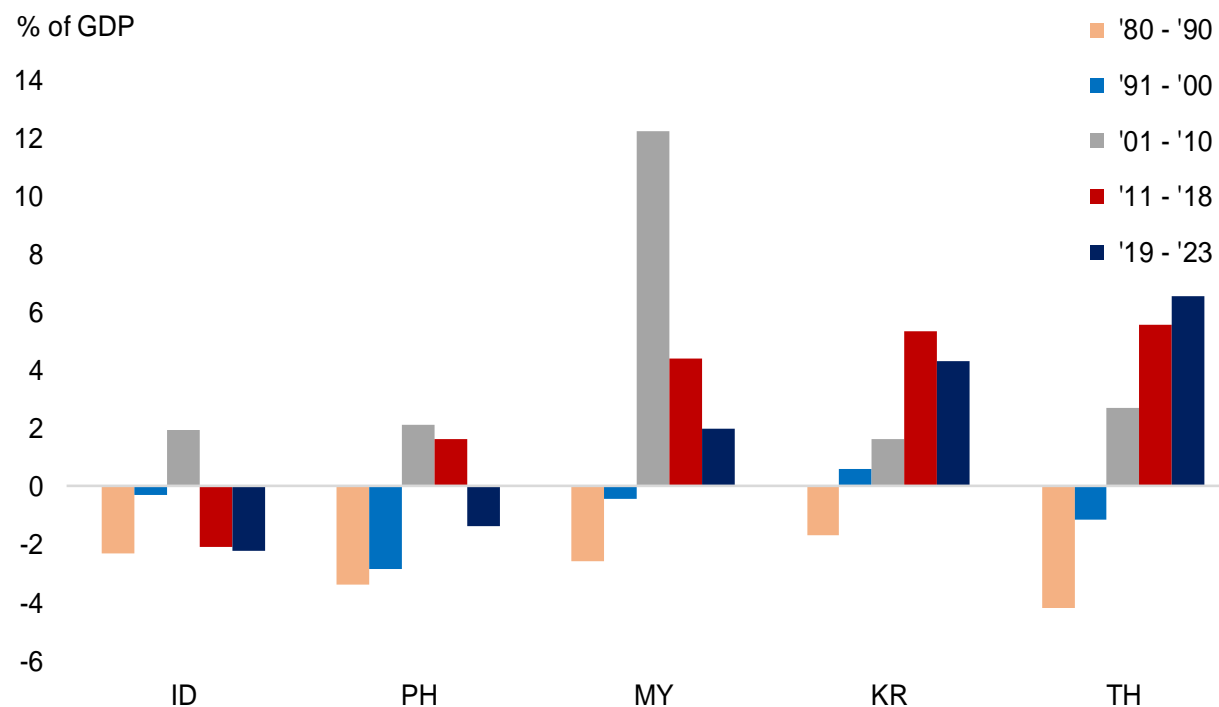


Inward FDI Flows into CLMV Economies
by Source Countries

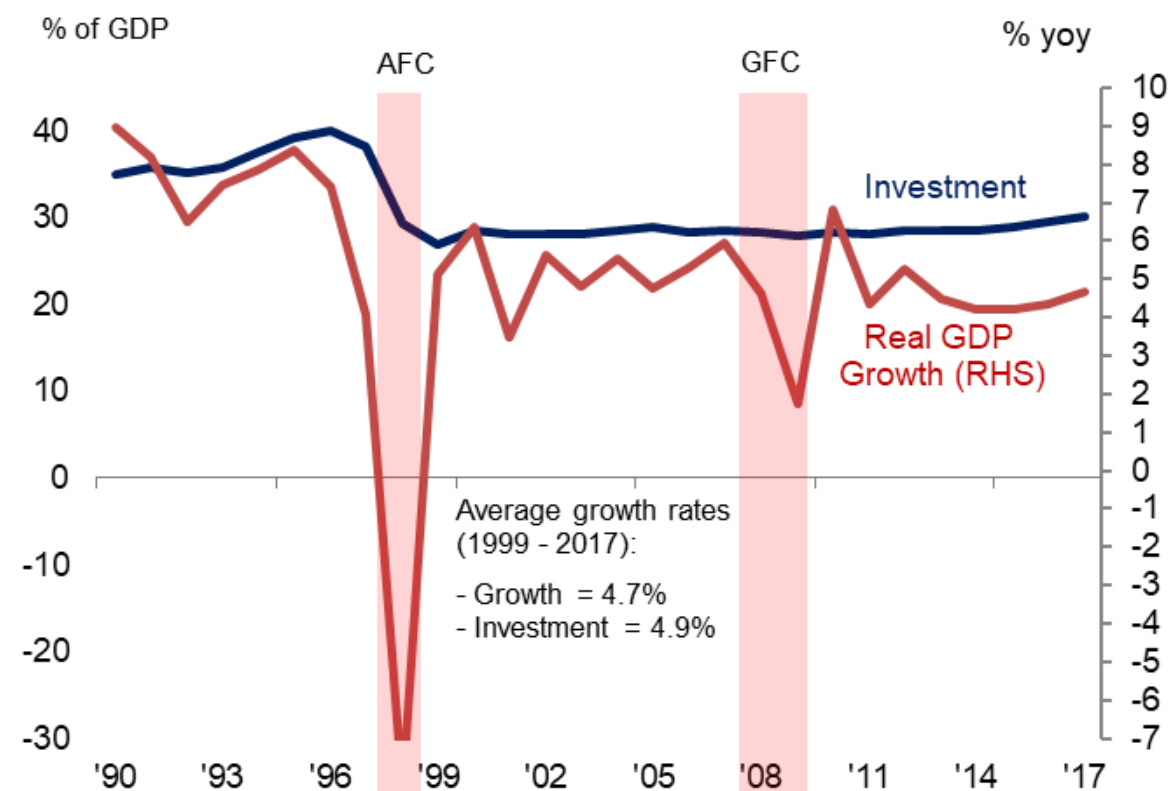


FX Gap in ASEAN-4 & Korea – Needed to save more, holding down investment

ASEAN-4 and Korea:
Current Account Balance

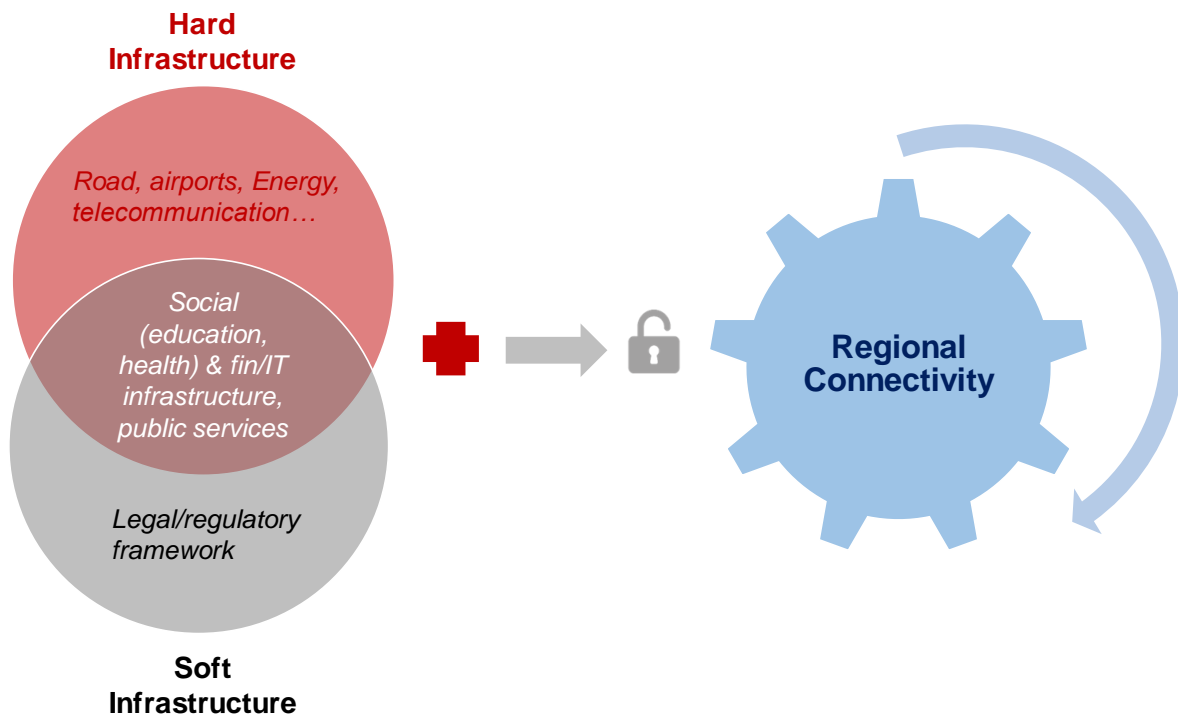


ASEAN-4 and Korea:
Investment and Overall Real GDP Growth



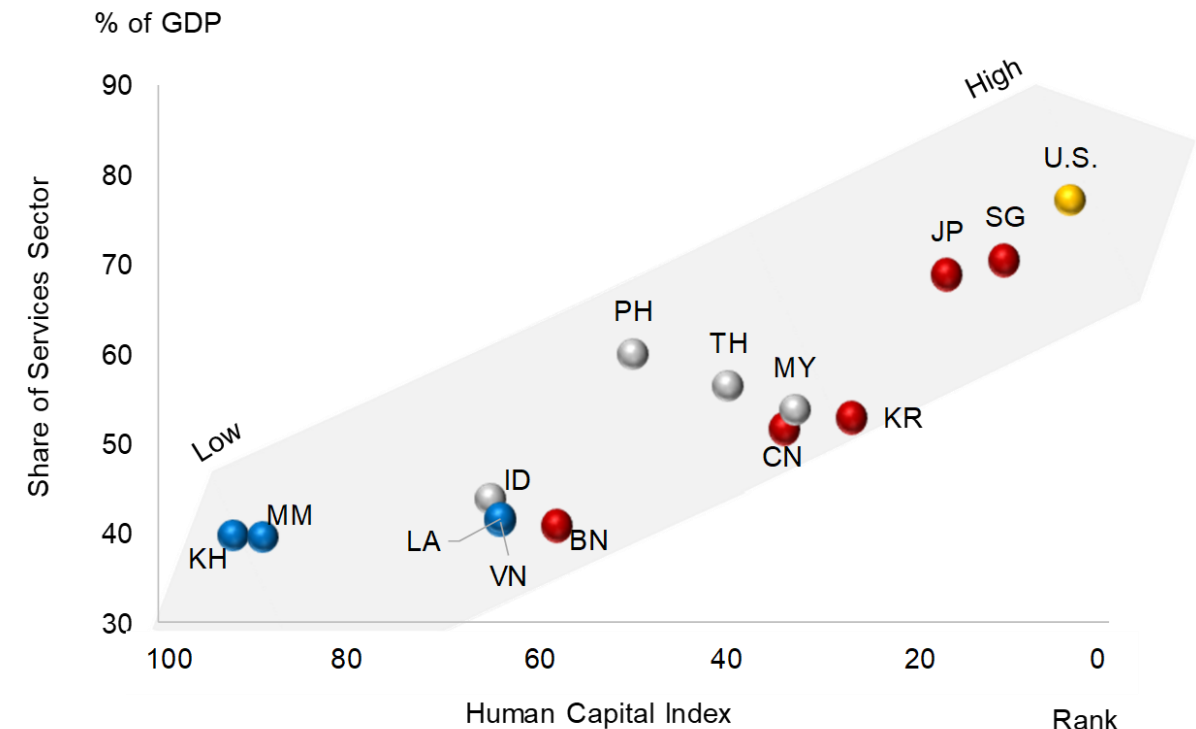
Hard infrastructure is indispensable for development, but soft infrastructure – including cross-country connectivity – is also key for unleashing the region’s growth potential and facilitating its transition to the “new economy”

Hard and Soft Infrastructure and Regional Connectivity



Source: AMRO staff.

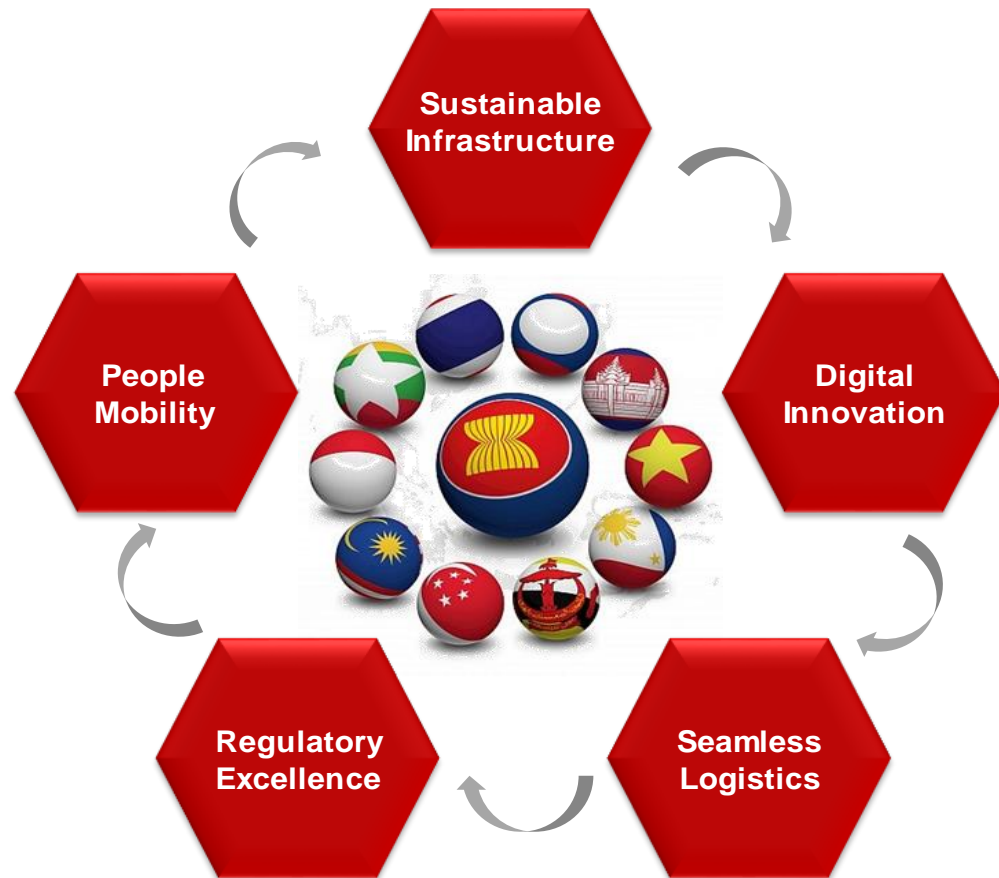
Human Capital and Services Sector Development, 2017



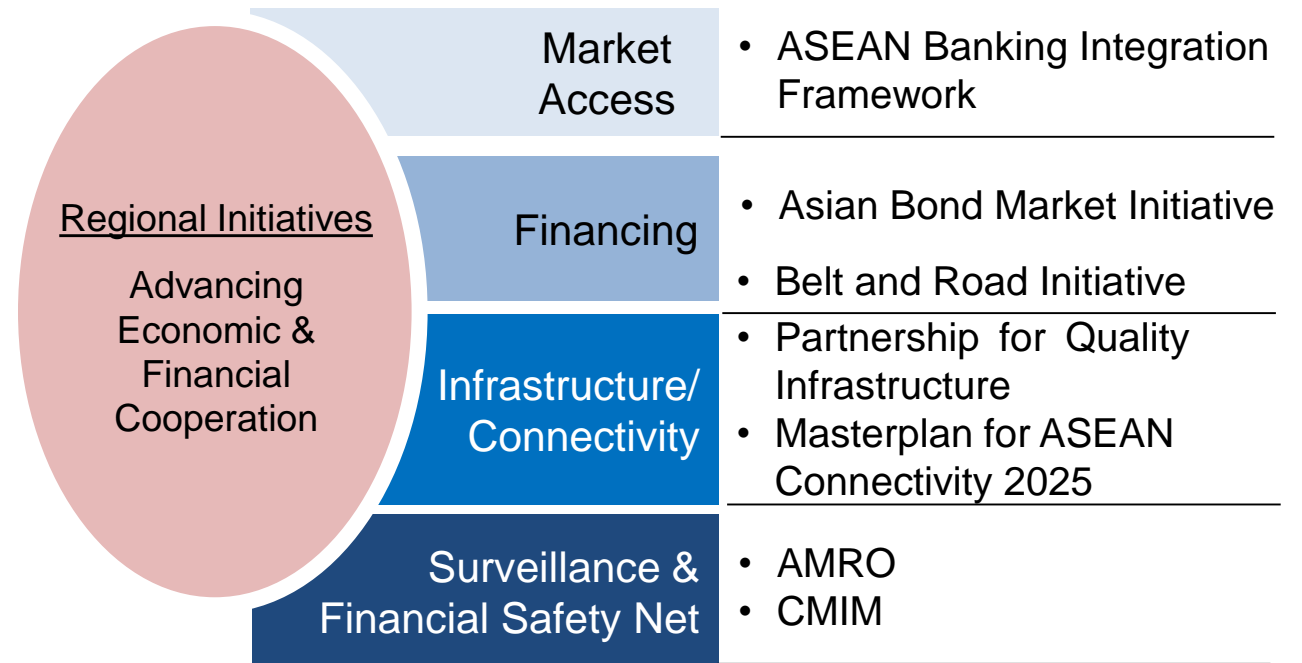
Source: World Economic Forum.

While leveraging on regional initiatives

ASEAN: Master Plan for ASEAN Connectivity

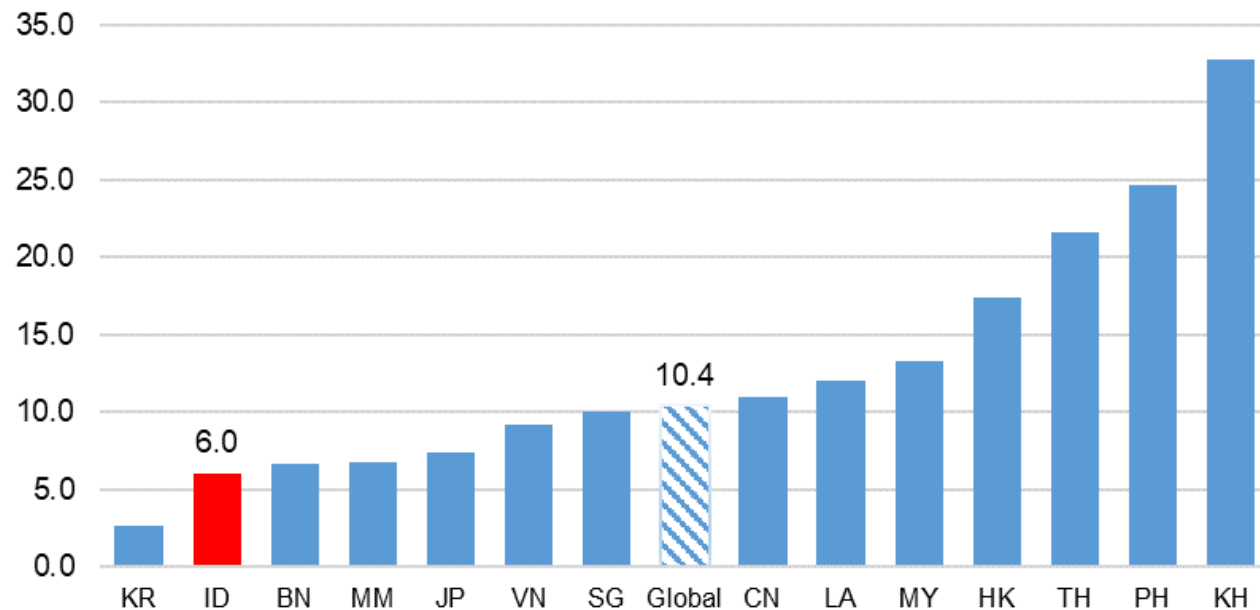


ASEAN+3: Regional Economic and Financial Cooperation

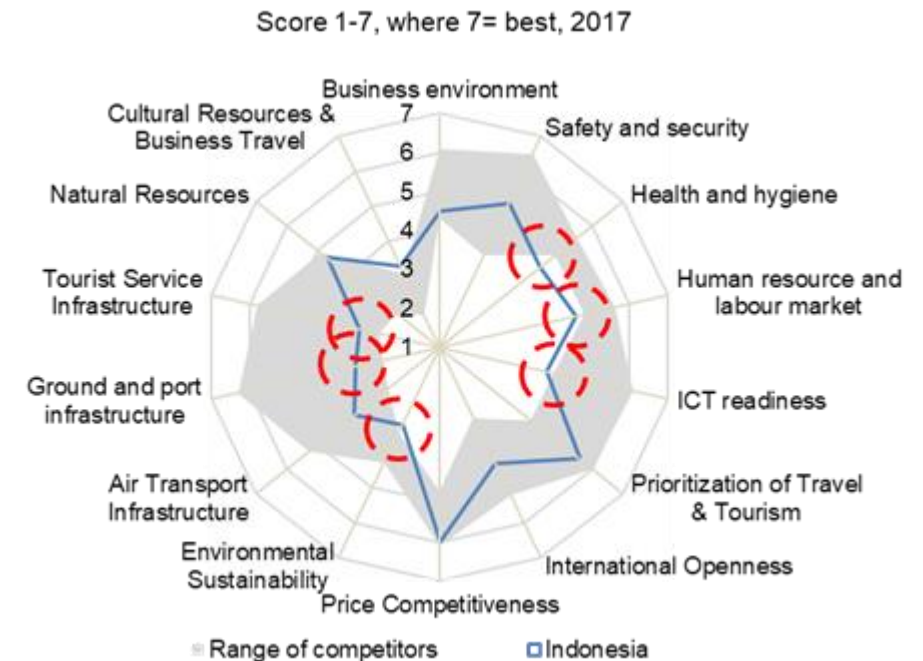


Richly endowed with more than 17,000 islands and 8 UNESCO sites, Indonesia is poised to realize its great tourism potential alongside technology upgrade and connectivity enhancement.

Contribution of Tourism to GDP (%)



Indonesia's Competitiveness as a Tourist Destination

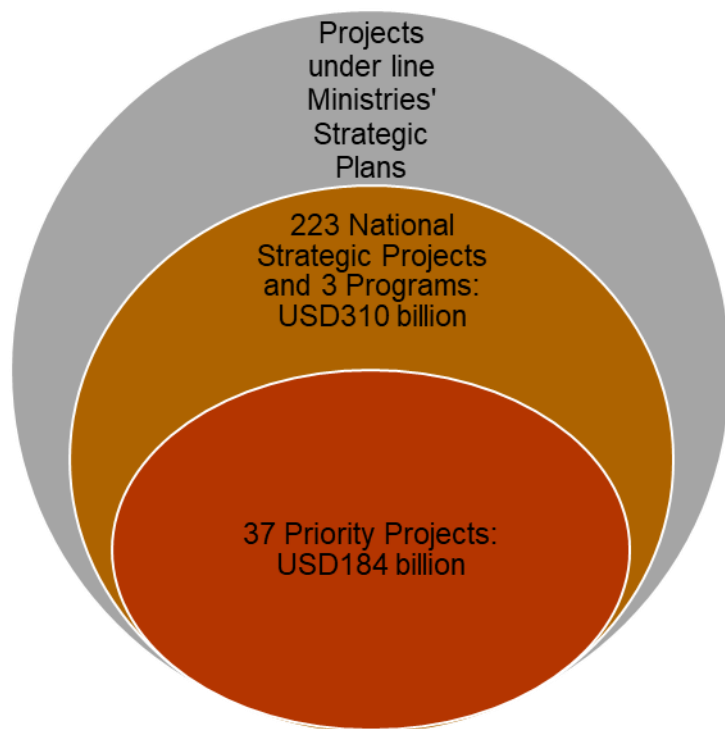


Competitors are Malaysia, the Philippines, Singapore, Thailand, and Vietnam 20

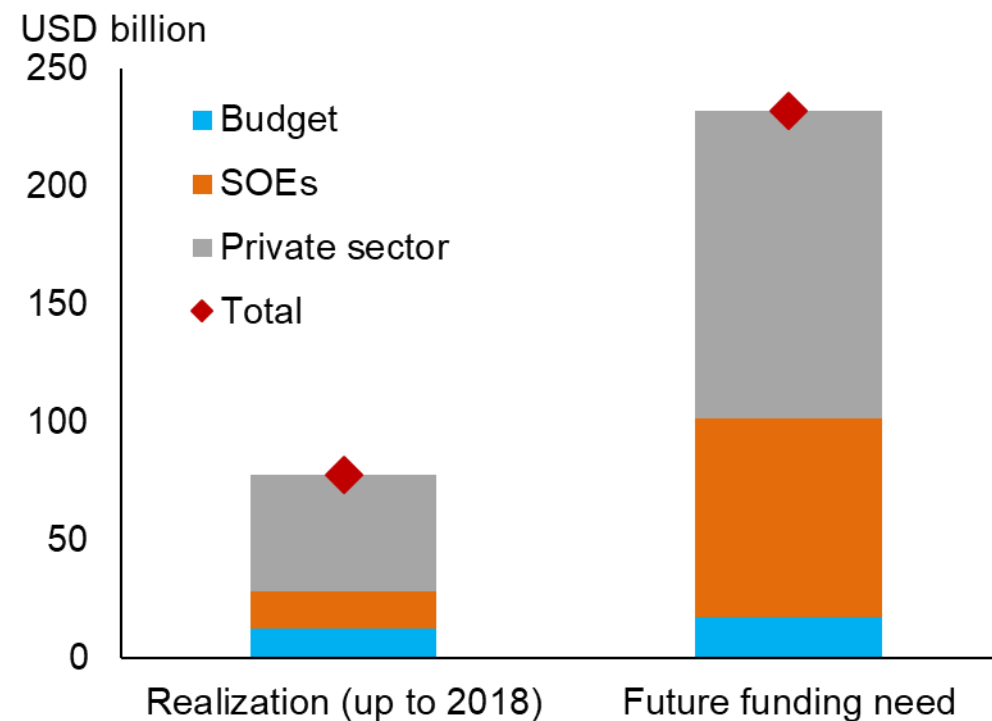


The Mid-term National Development Plan has been implemented under the strong public sector stewardship and joint funding with the private sector.

Mid-term National Development Plan: 2014-2019



National Strategic Projects: Funding Progress



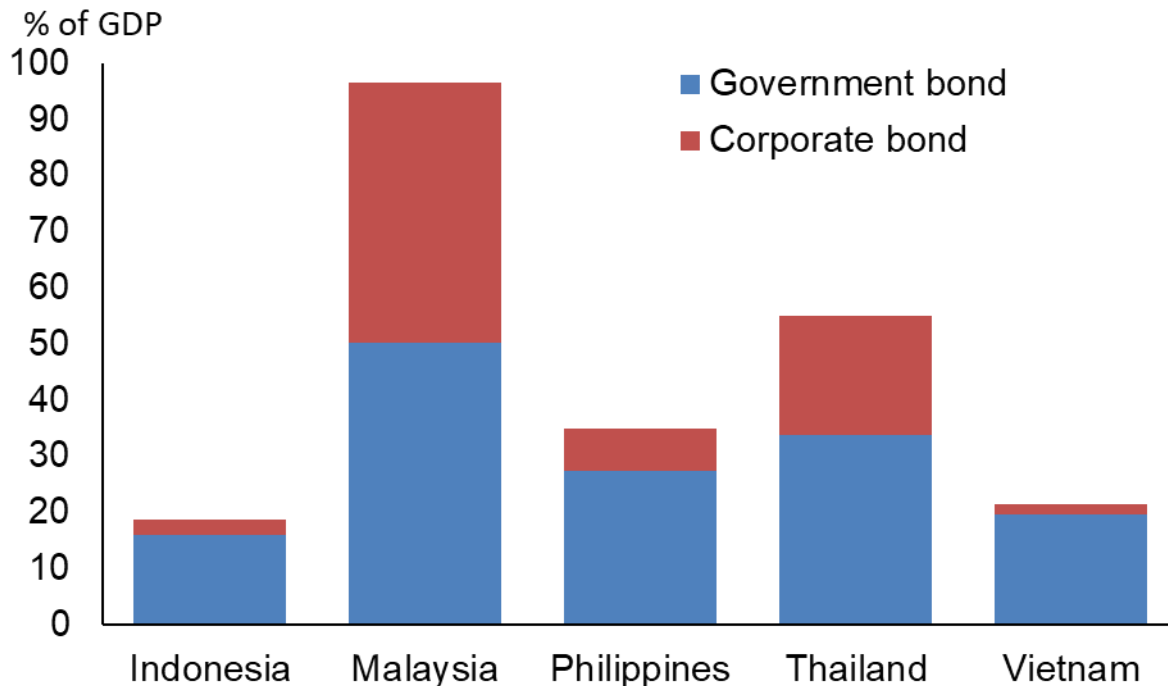
Phase 1 of the National Priority Project on Jakarta MRT North-South Line completed in April 2019



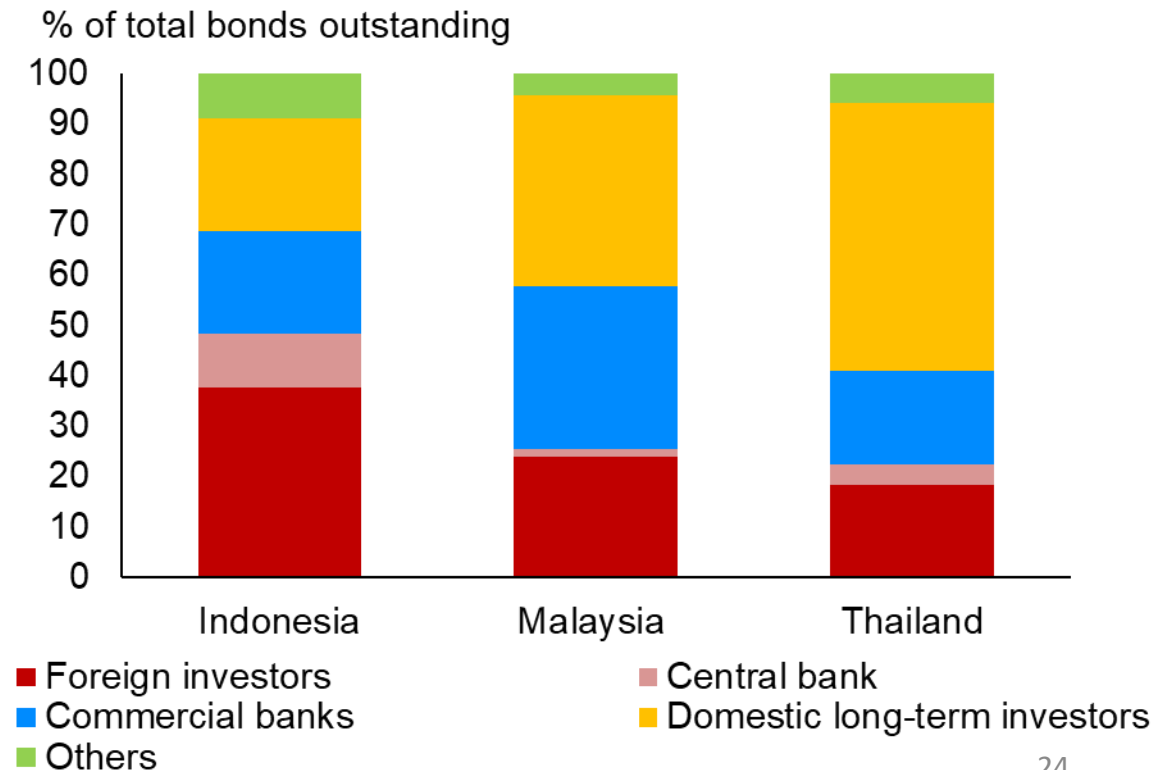
Jakarta-Surabaya Toll Road – part of the National Strategic Project on Trans-Java Toll Road, open for use from December 2018

Efforts to develop domestic capital markets and strengthen their long-term investor base are essential.

Size of LCY Bond Markets in ASEAN-5



LCY Government Bond Investor Profile



Thank You

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