



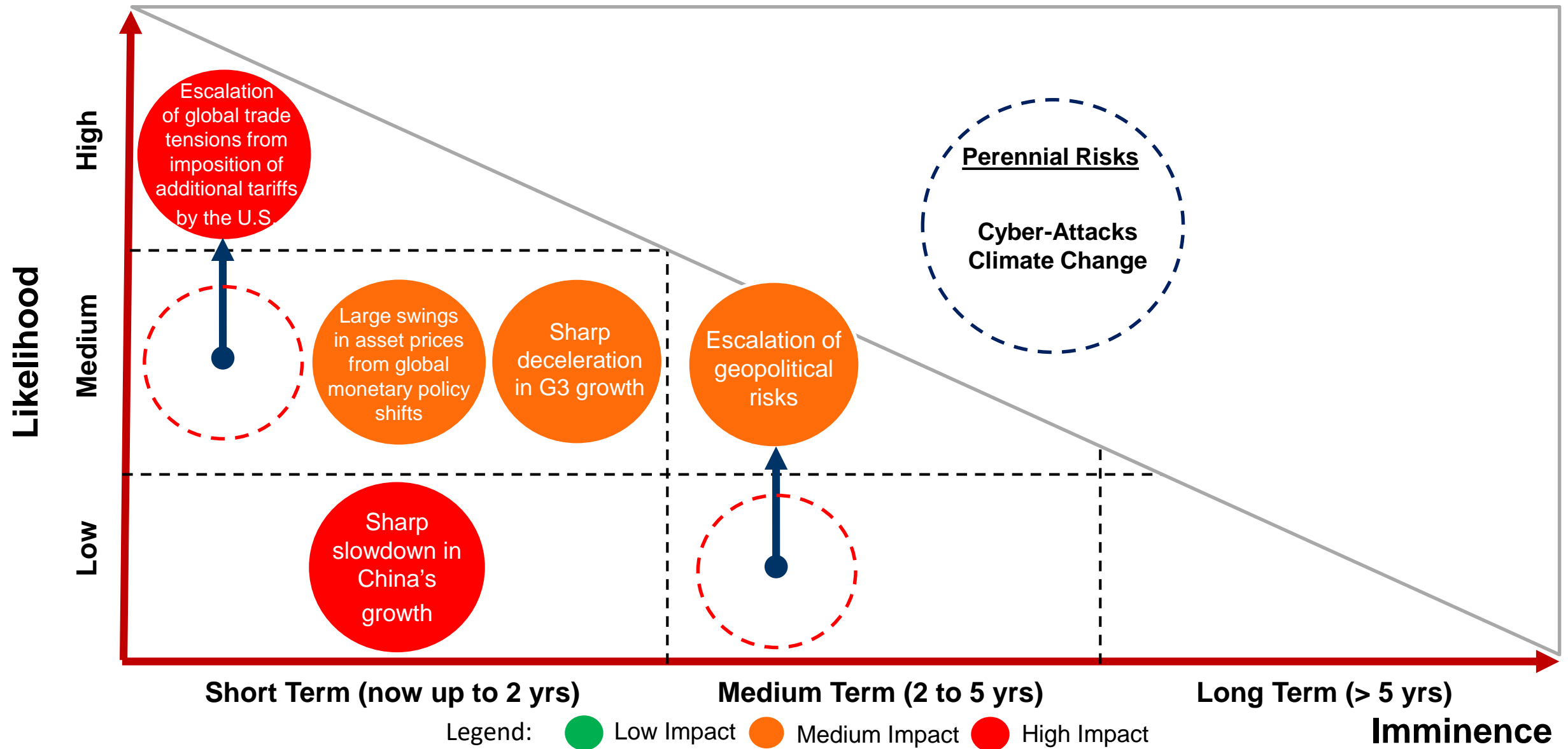
ASEAN+3 Regional Economic Outlook 2019: Building Capacity and Connectivity for the New Economy

22 August 2019
Bangkok, Thailand

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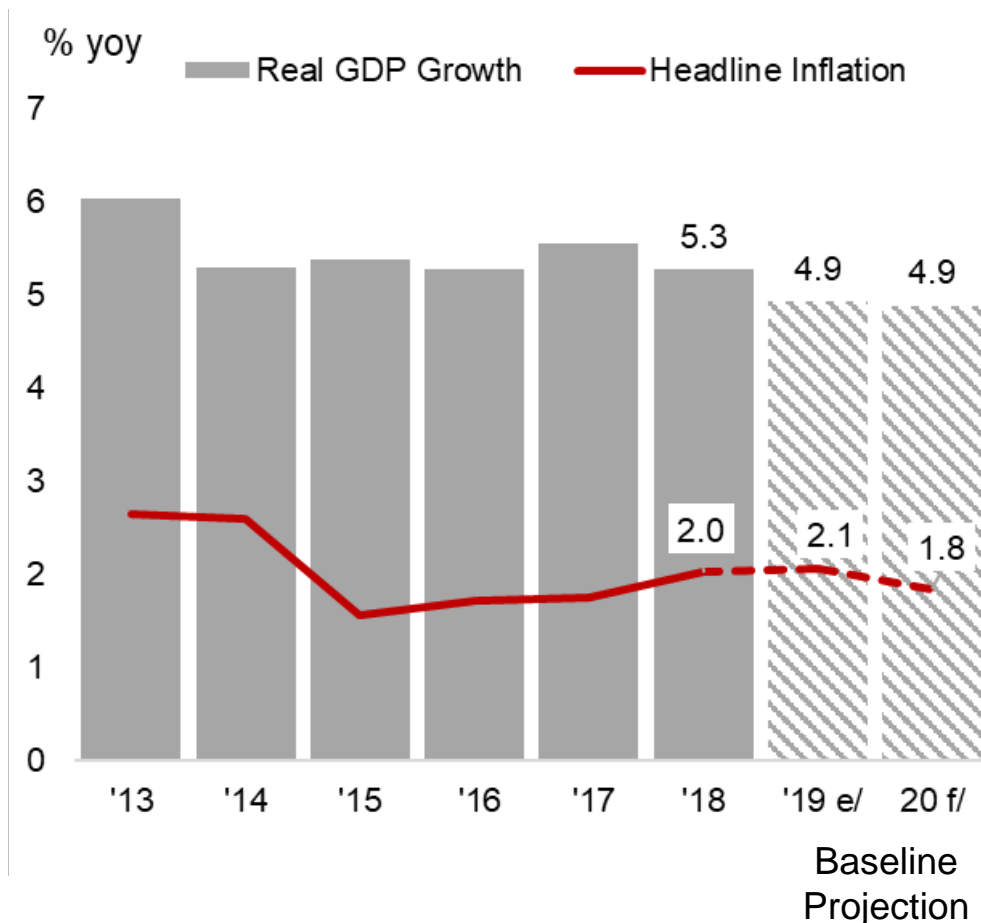


- 1 | Near Term Macroeconomic Prospects & Challenges**
- 2 | Longer Term Structural Shifts:
Building Capacity and Connectivity for the New Economy**



The regional economy transited to a slower pace of expansion, with more uncertain growth trajectory ahead

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



Real GDP Growth (% y/y)	'18	'19 e/	'20 p/	Average '19 – '20
		Jul '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	5.3	5.0	5.0	4.9
BCLM	6.8	6.5	6.7	6.9
HK & SG	3.1	1.3	1.7	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)

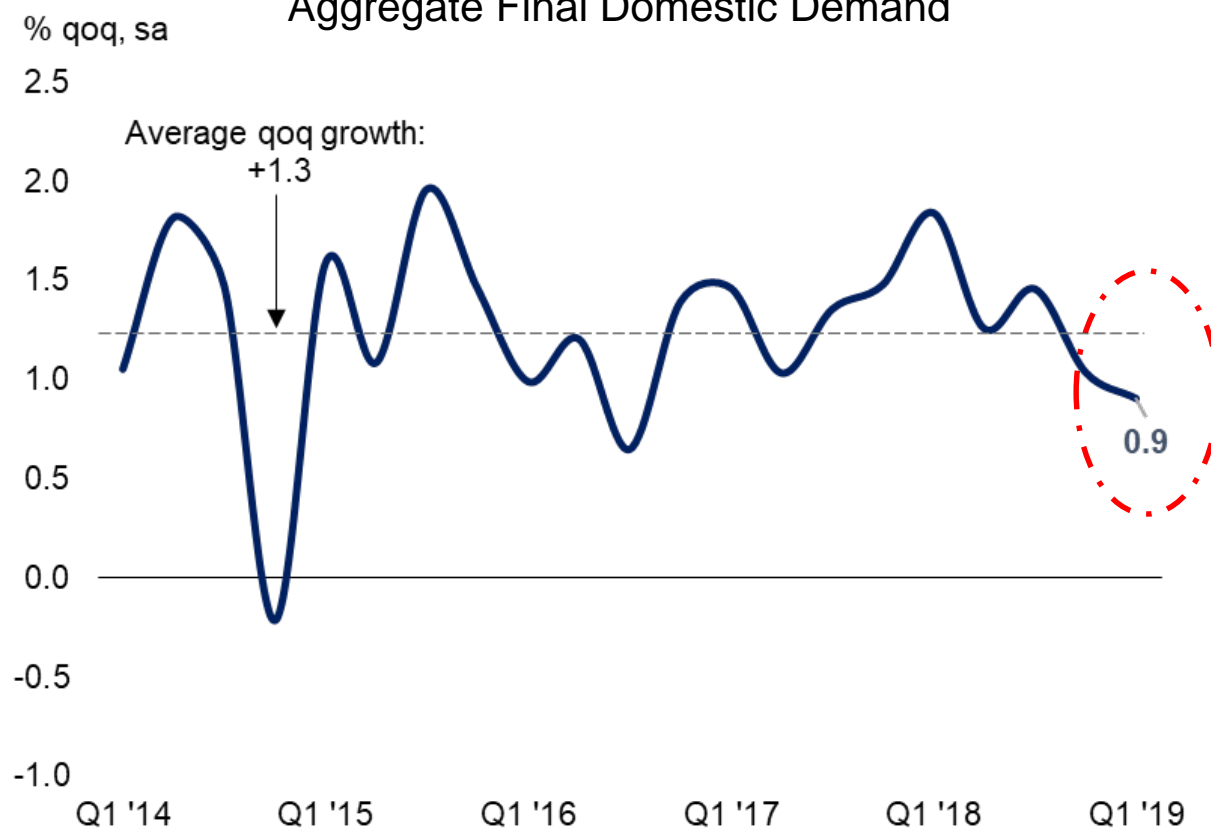
e/ Estimates p/ Projections

Sources: National Authorities, and AMRO staff calculations.

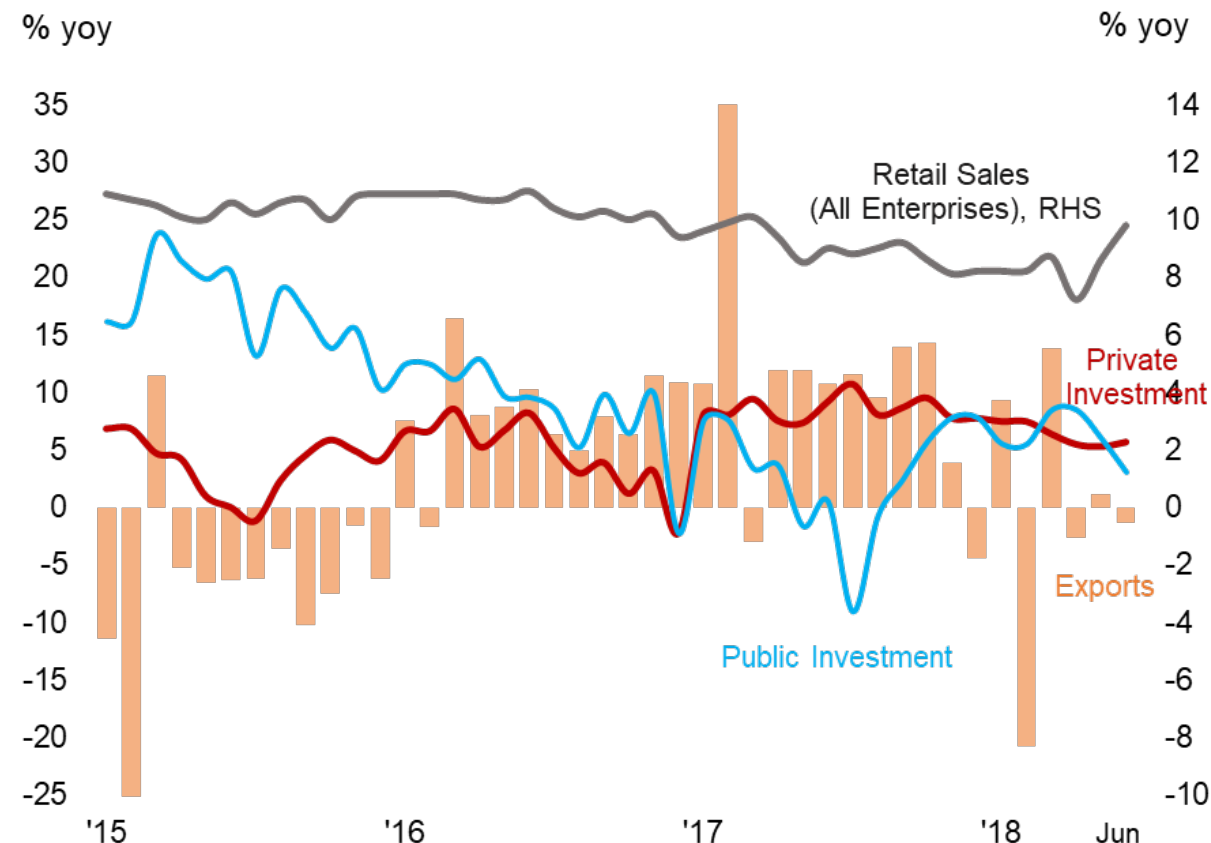


There has been a stepdown in domestic demand, but China's recent policy easing will help support growth

ASEAN-4 and Korea:
Aggregate Final Domestic Demand



China: Domestic Demand Indicators

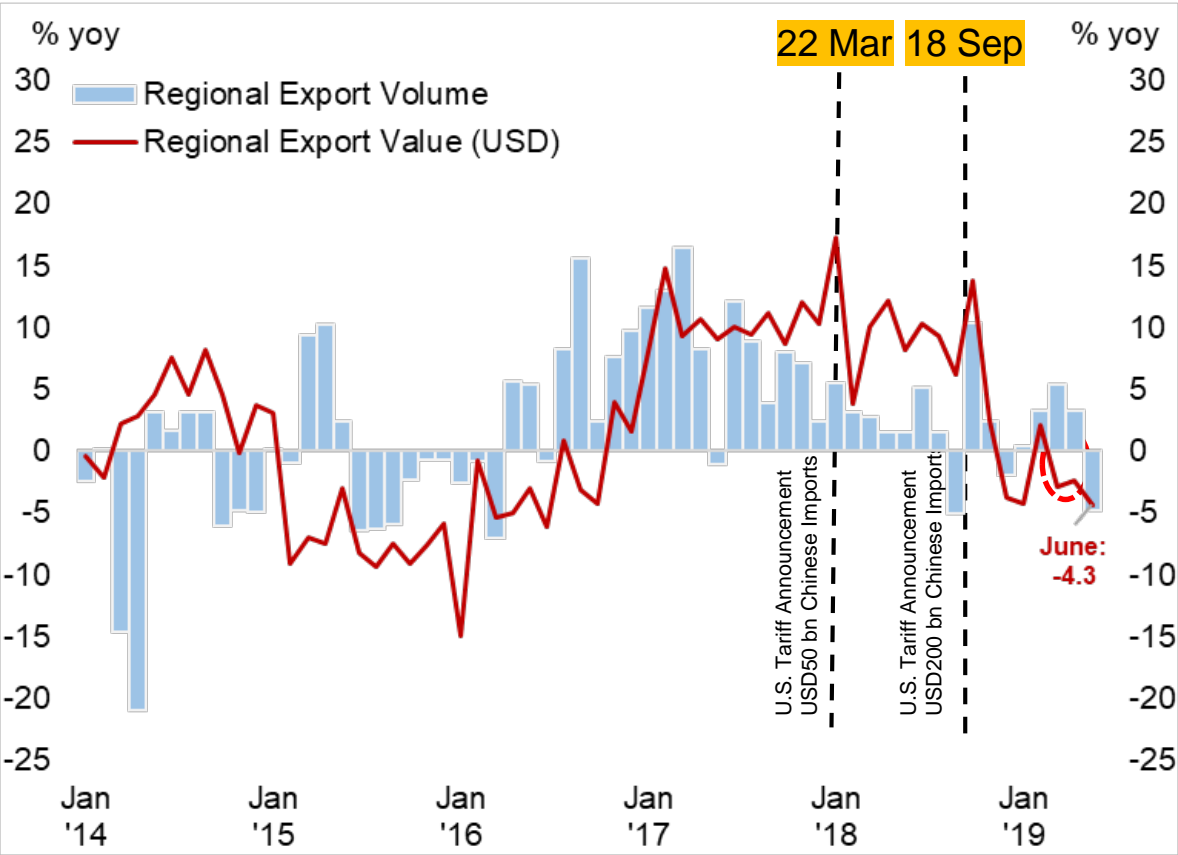


Sources: National Authorities, and AMRO staff calculations.
Note: Final domestic demand excludes changes in inventories.

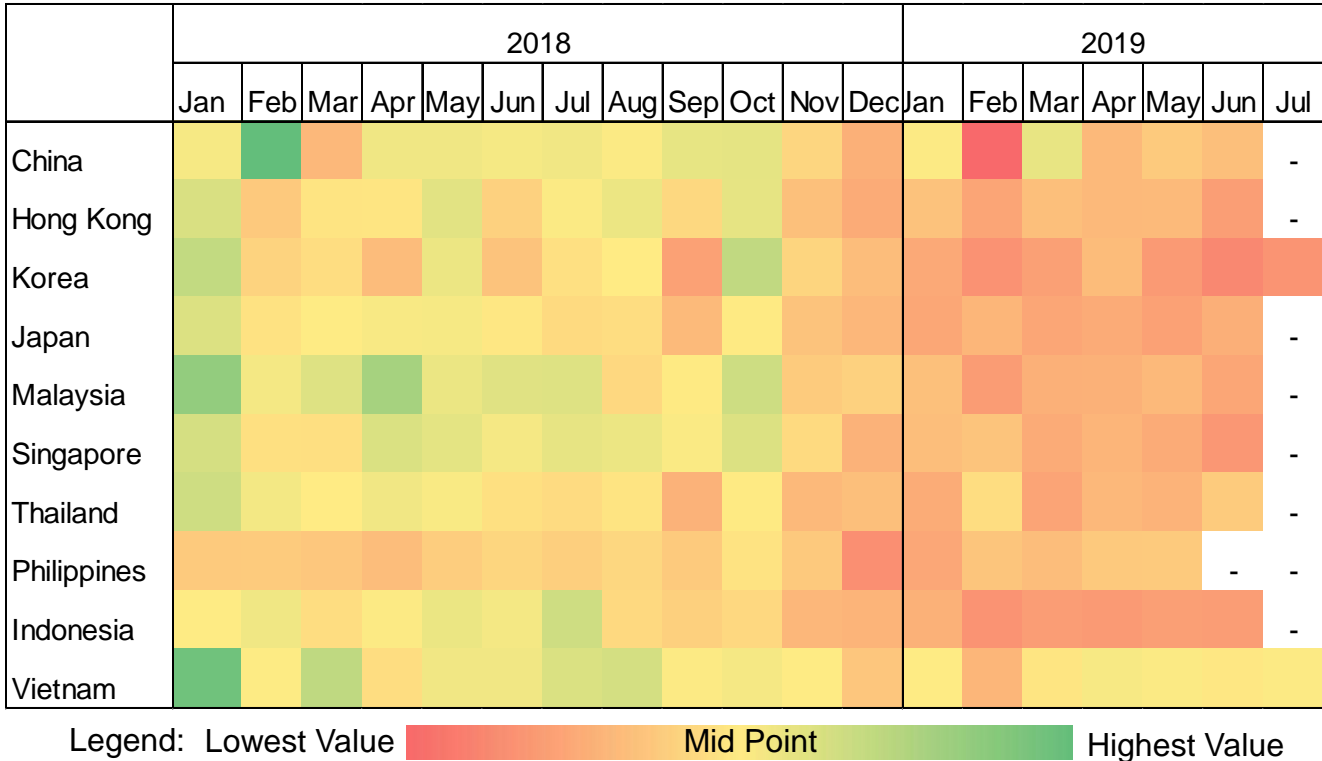


Regional exports continued to face external headwinds, with the more open economies being disproportionately affected

Regional Exports (Volume and in USD Terms)



Heatmap of Export Performance Selected Economies (% yoy in USD Terms)

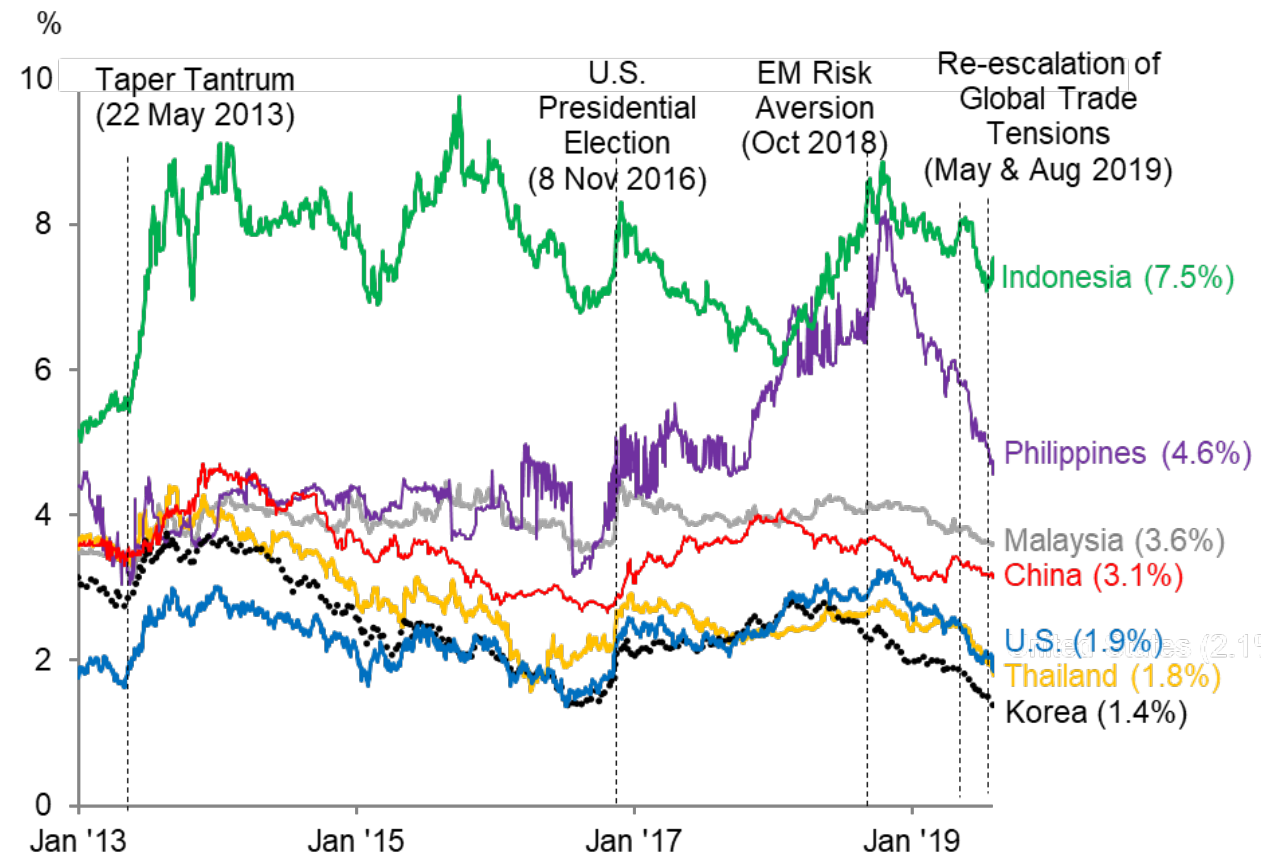


Legend: Lowest Value Mid Point Highest Value

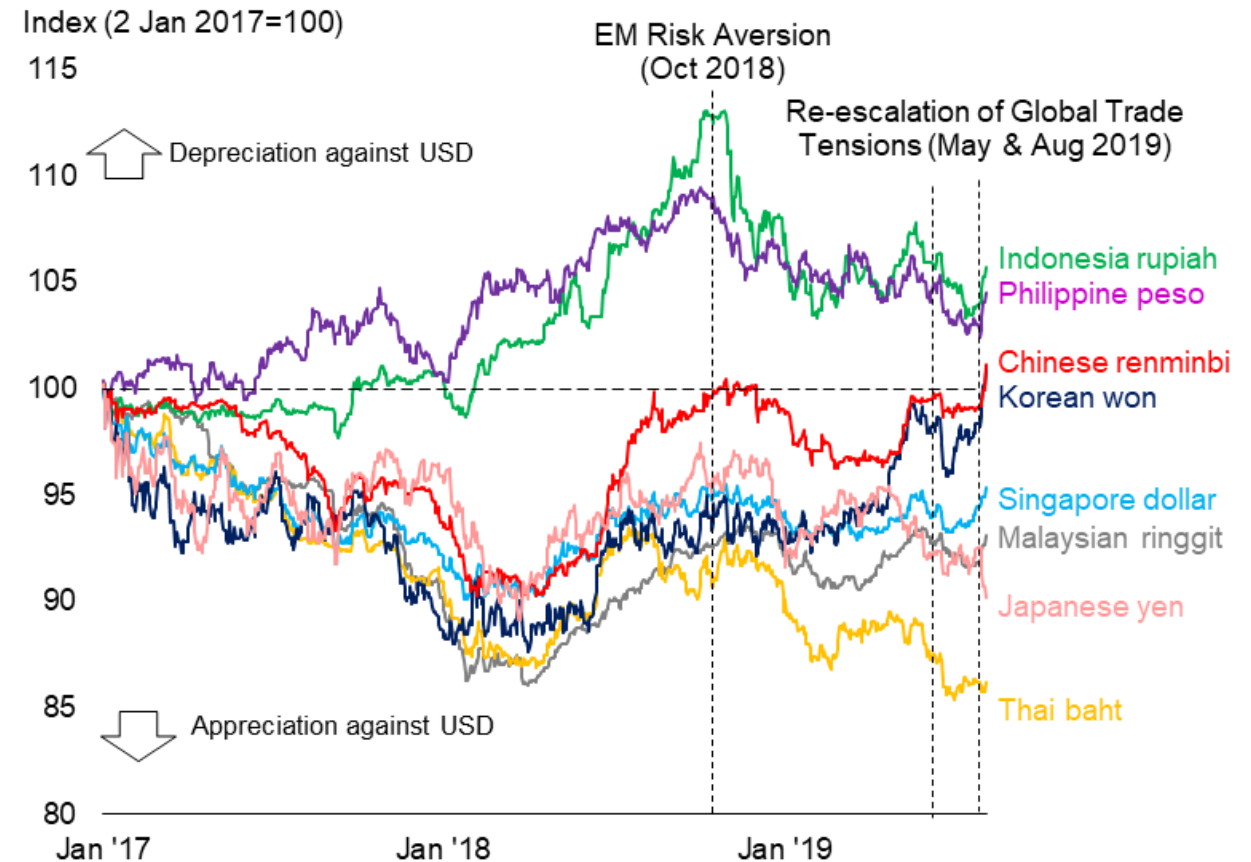


Borrowing costs have declined as major central banks adopt easing policy bias, but in recent weeks, FX rates have come under pressure with U.S-China re-escalation

10Y Sovereign Yields, Selected Economies



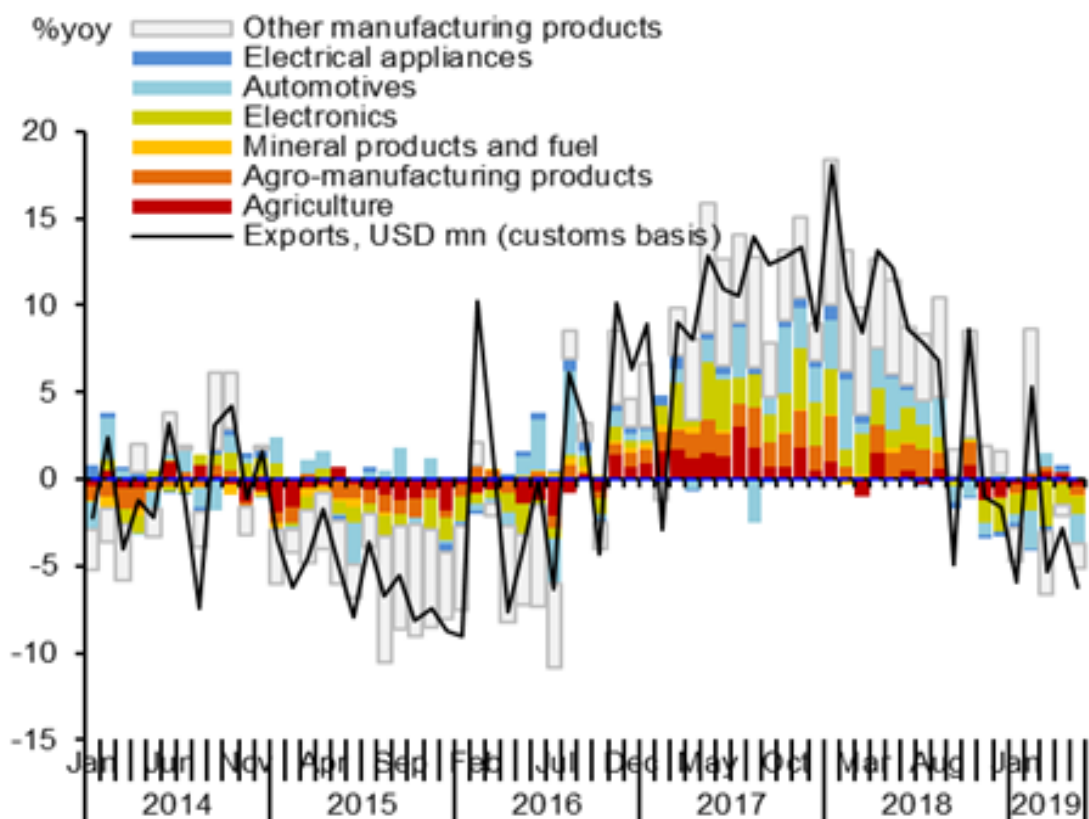
FX Performance Against USD, Selected Economies



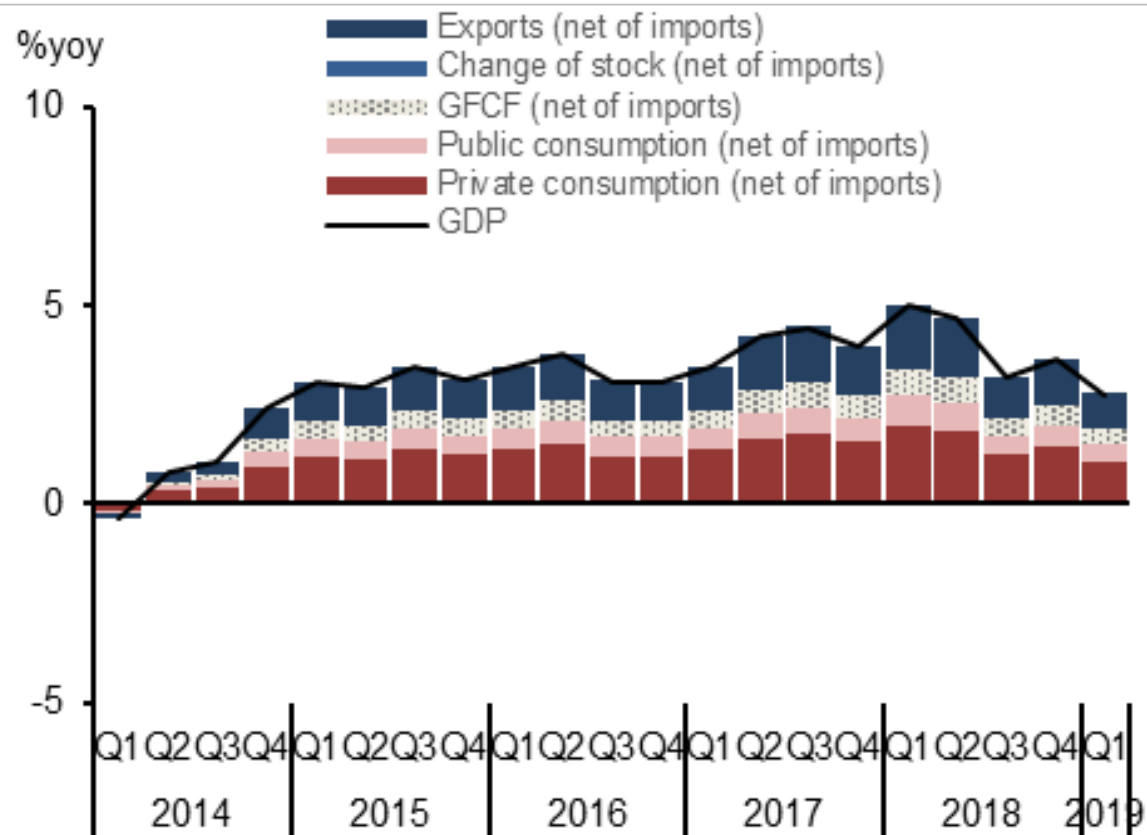


- In Q1 2019, GDP growth slows more than expected as exports contracted deeper and more widespread than anticipated amid US-China trade conflict, and private investment softens amid domestic political uncertainty.

Recent Export Performance



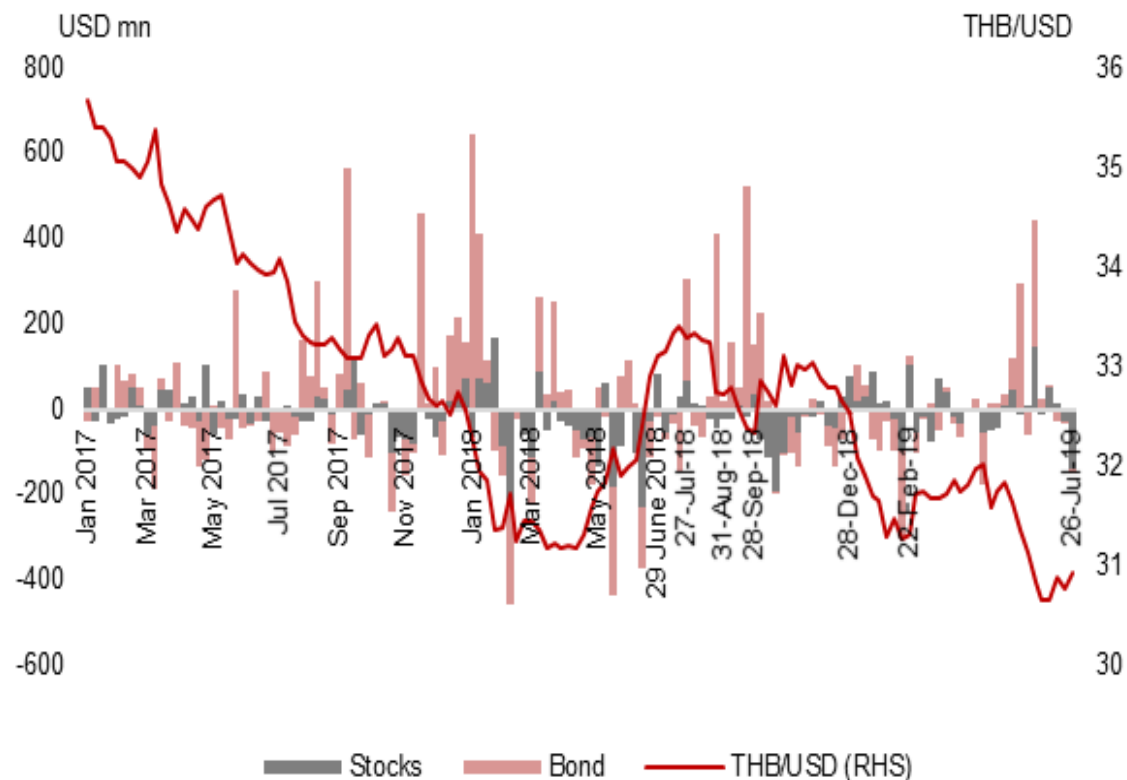
GDP Growth Contribution: Import-Adjusted Basis



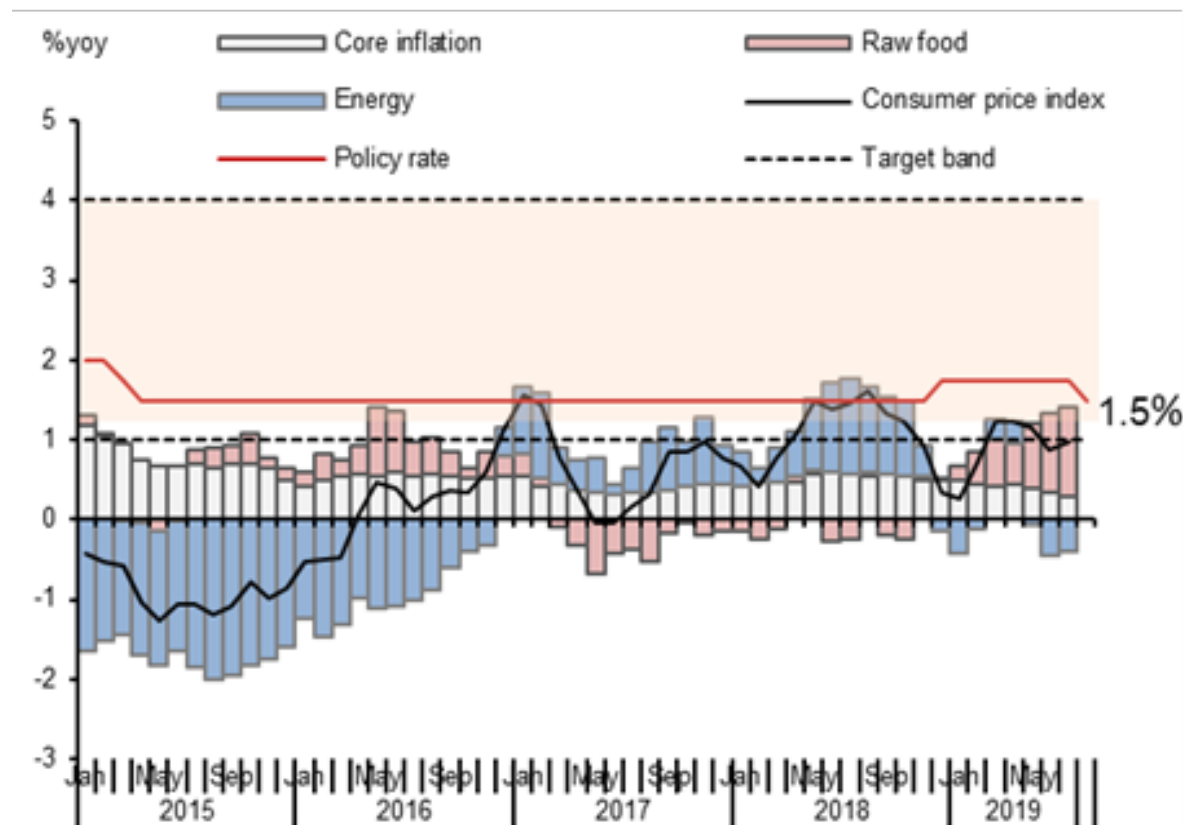


- Recent net portfolio inflows have contributed to the strengthening of the Thai baht, which could pose a downside risk to exports and tourism.
- Headline inflation remains low.

Non-resident Net Flows in Stock and Bond Markets



Inflation and Policy Rate





The policy mix is broadly appropriate with some room for 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

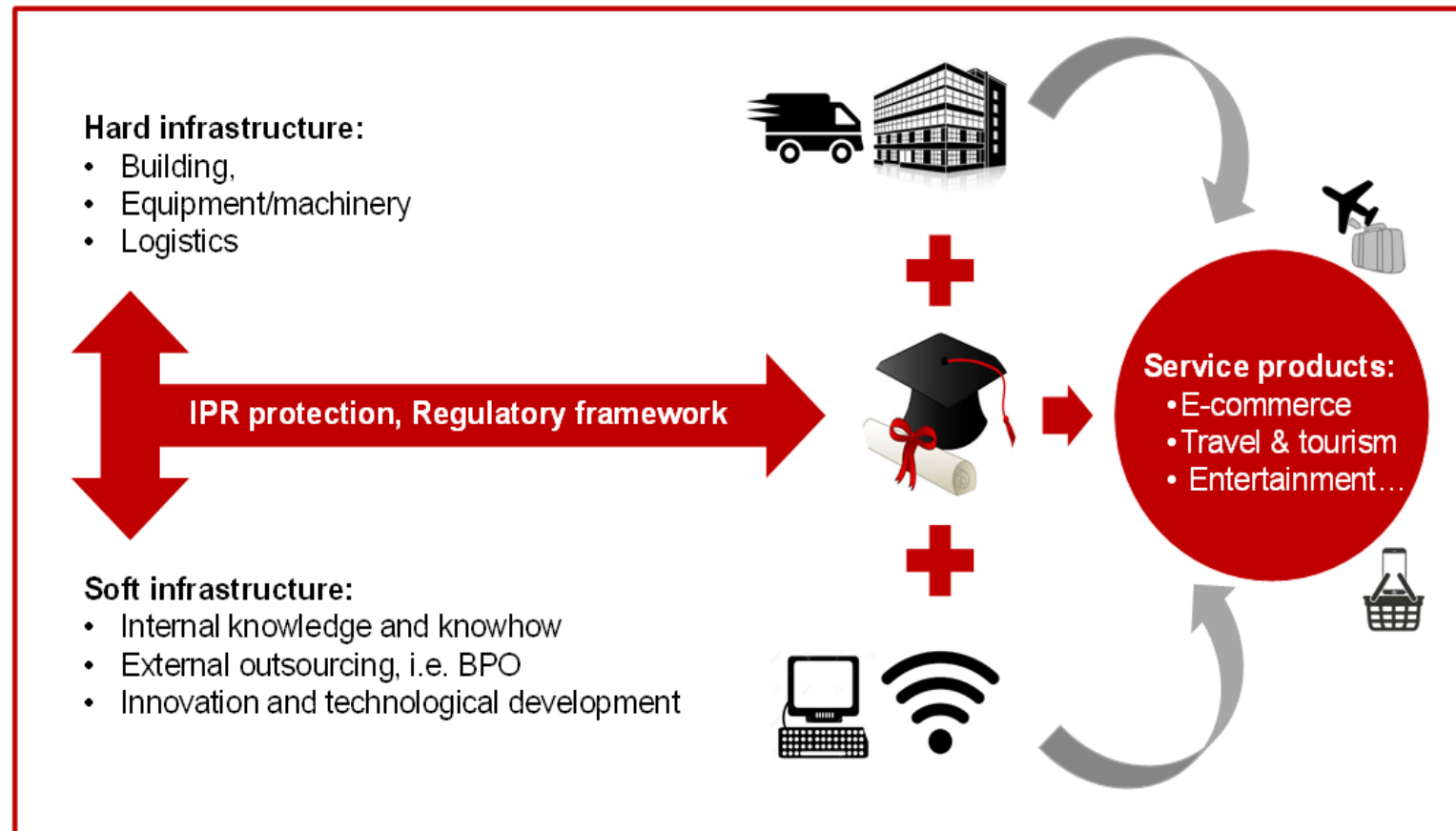
- 1 | Near Term Macroeconomic Prospects & Challenges
- 2 | **Longer Term Structural Shifts:
Building Capacity and Connectivity for the New Economy**

Video: 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

Survival

- Water supplies
- Basic buildings
- Market stalls
- Electronic power

Basic

- Healthcare
- Education
- Transportation
- Reliable electronic power
- Waste management

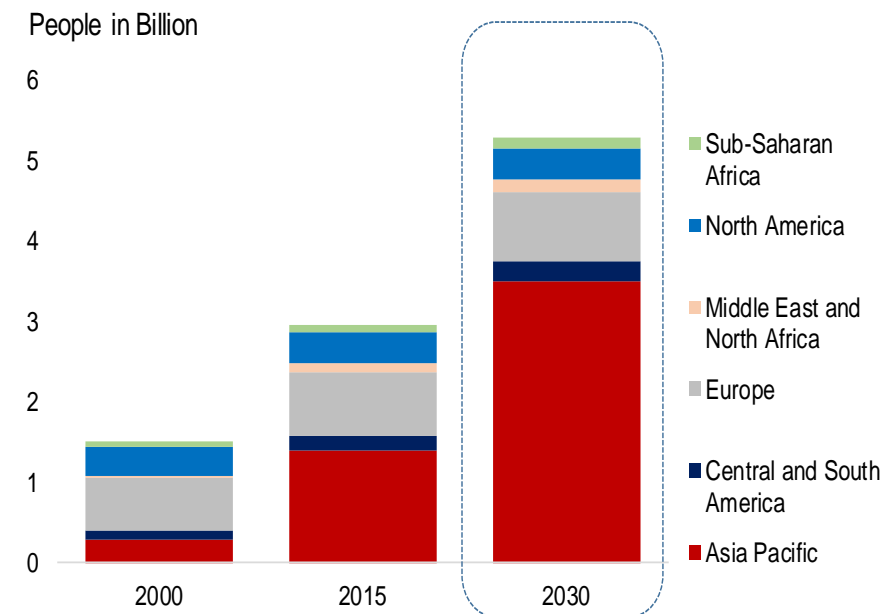
Advanced

- Mass transit systems
- Commercial property
- Technology
- Global connectivity
- Advanced universities and research
- Disaster risk management

Quality of Life

- Green space
- Eco-living
- Elderly care
- Entertainment
- Leisure and culture
- Advanced digital technologies

Global Middle Class Population

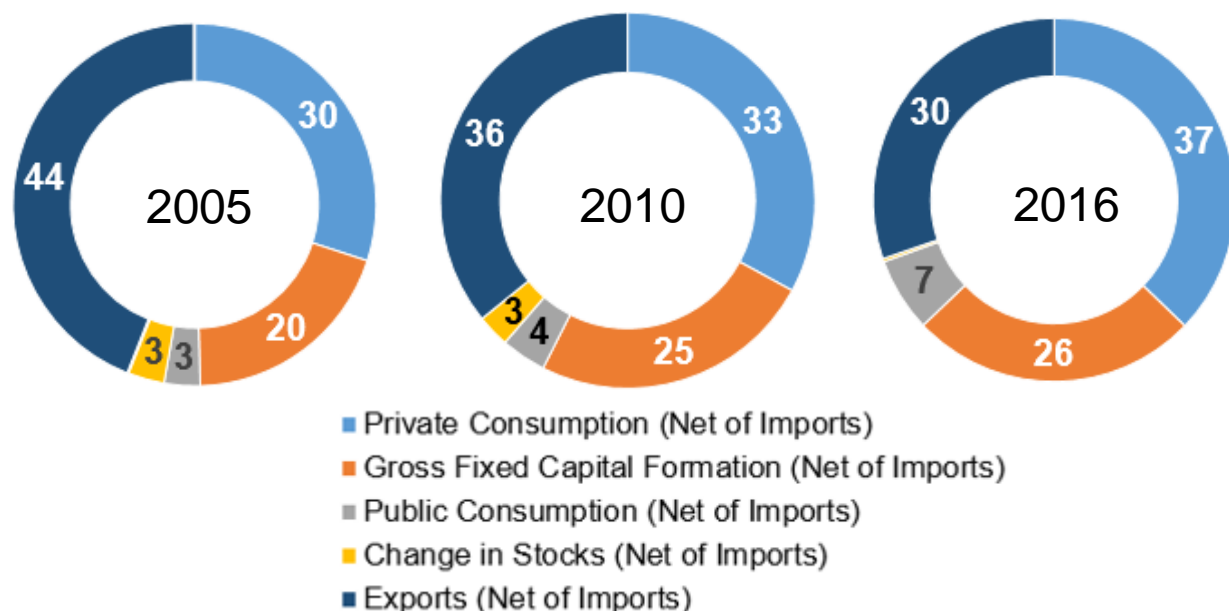




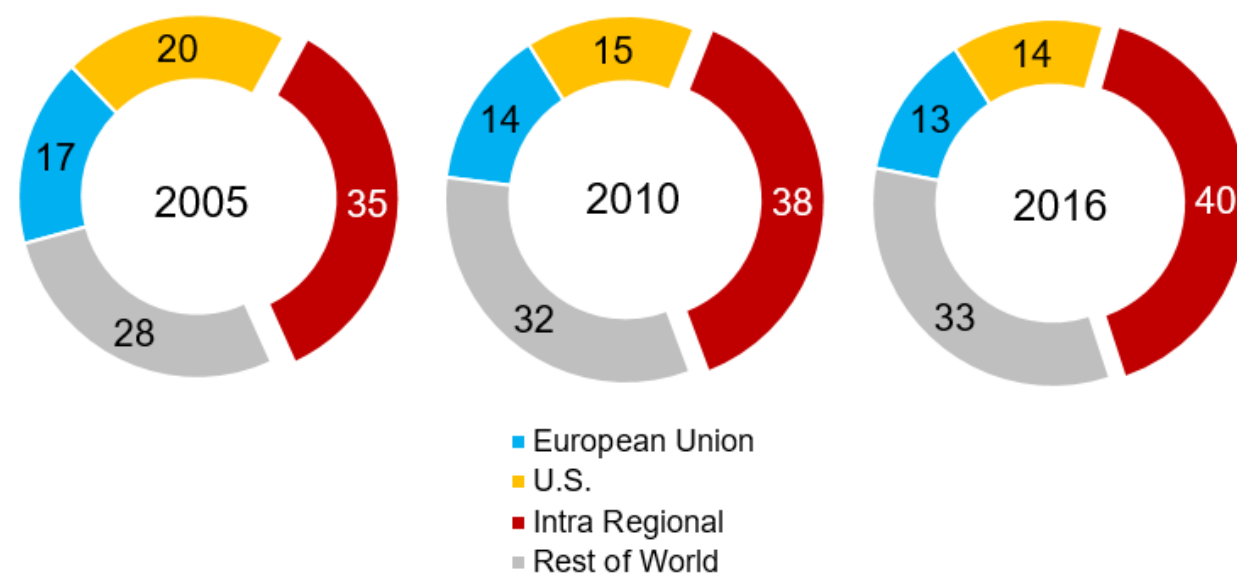
3 Growth rebalancing & regional integration – Driving regional demand

ASEAN-4 and Vietnam

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



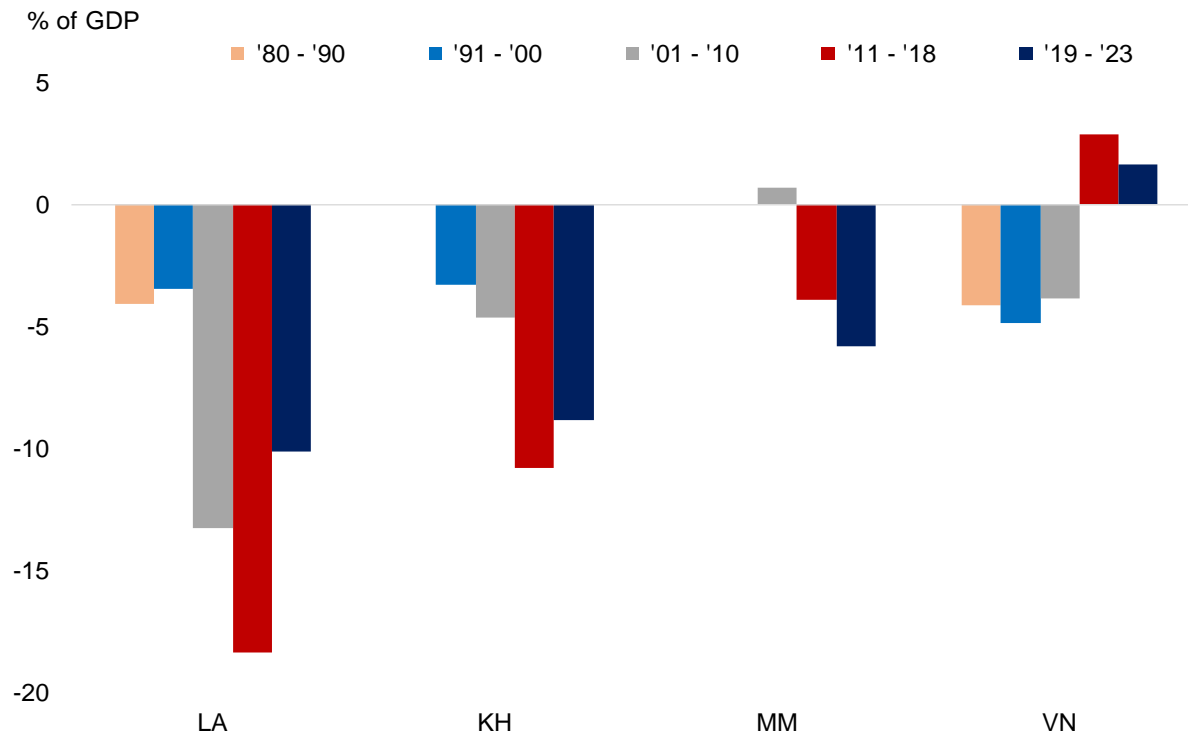
ASEAN's Value-Added Exports
(% Share, by Major Destinations)



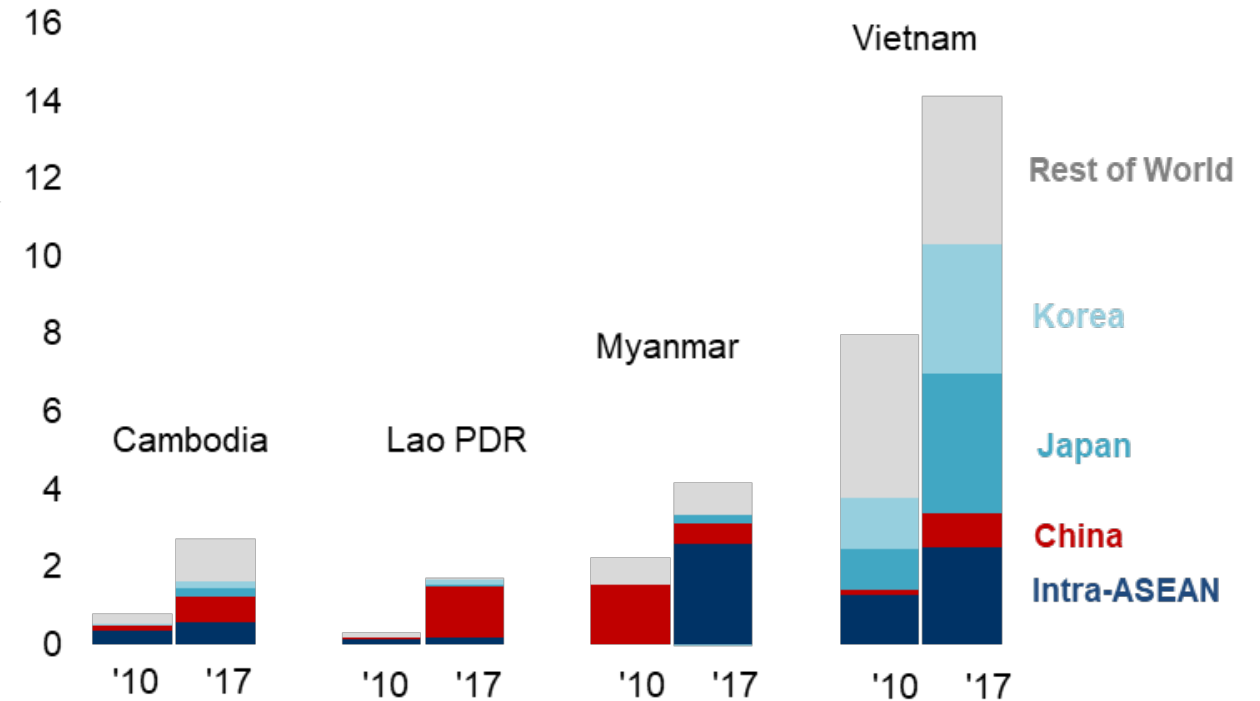


Funding Gap in CLMV countries – Low savings rate, but high investment needs

Current Account Balance:
CLMV Economies



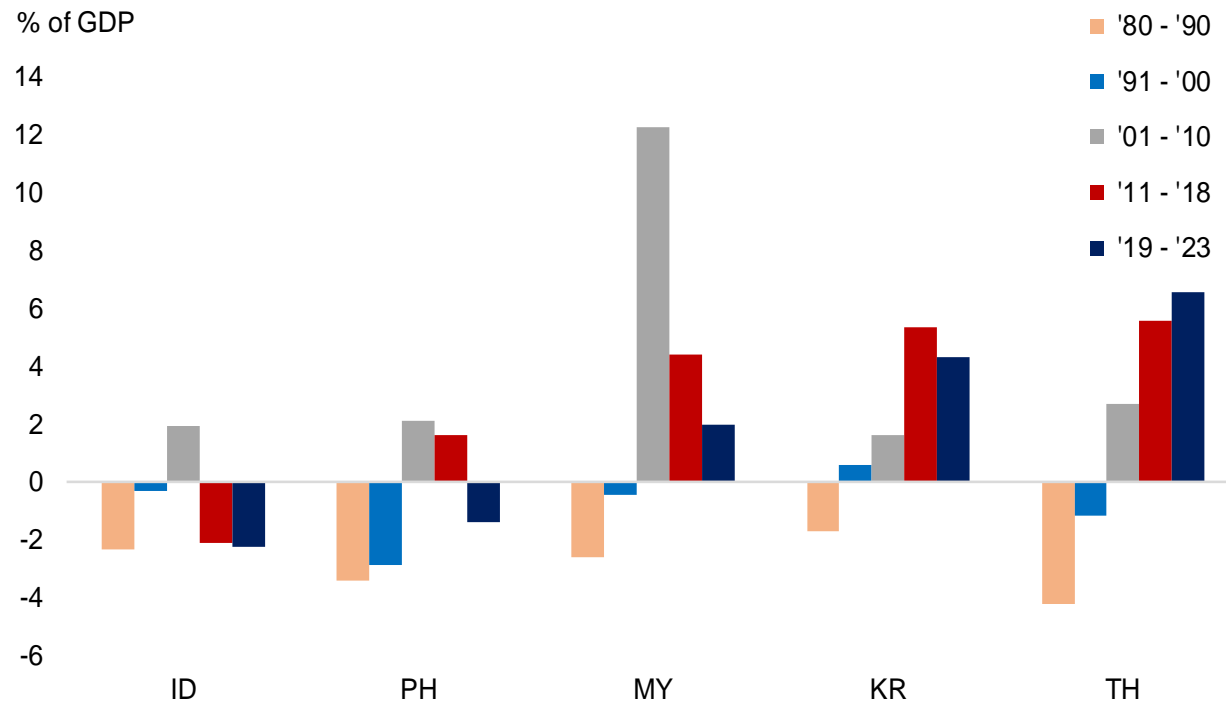
Inward FDI Flows into CLMV Economies
by Source Countries



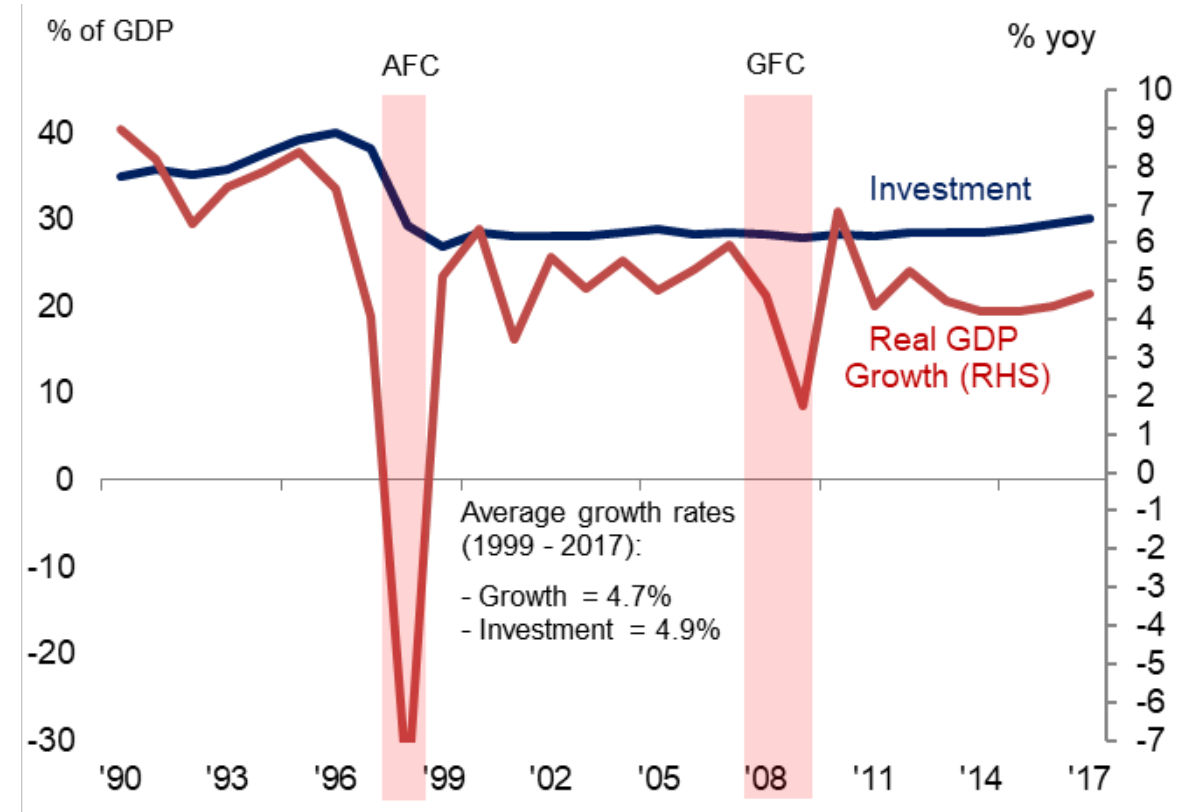


FX Gap in ASEAN-4 & Korea – Needed to save more, holding down investment

ASEAN-4 and Korea:
Current Account Balance



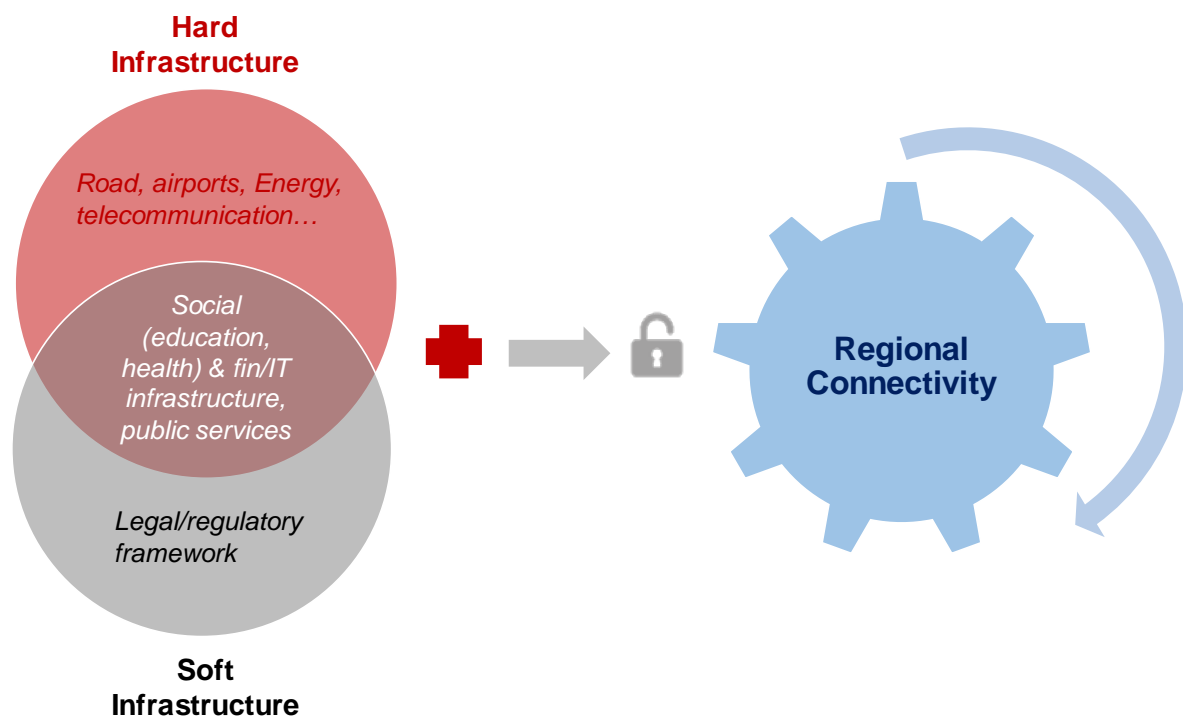
ASEAN-4 and Korea:
Investment and Overall Real GDP Growth





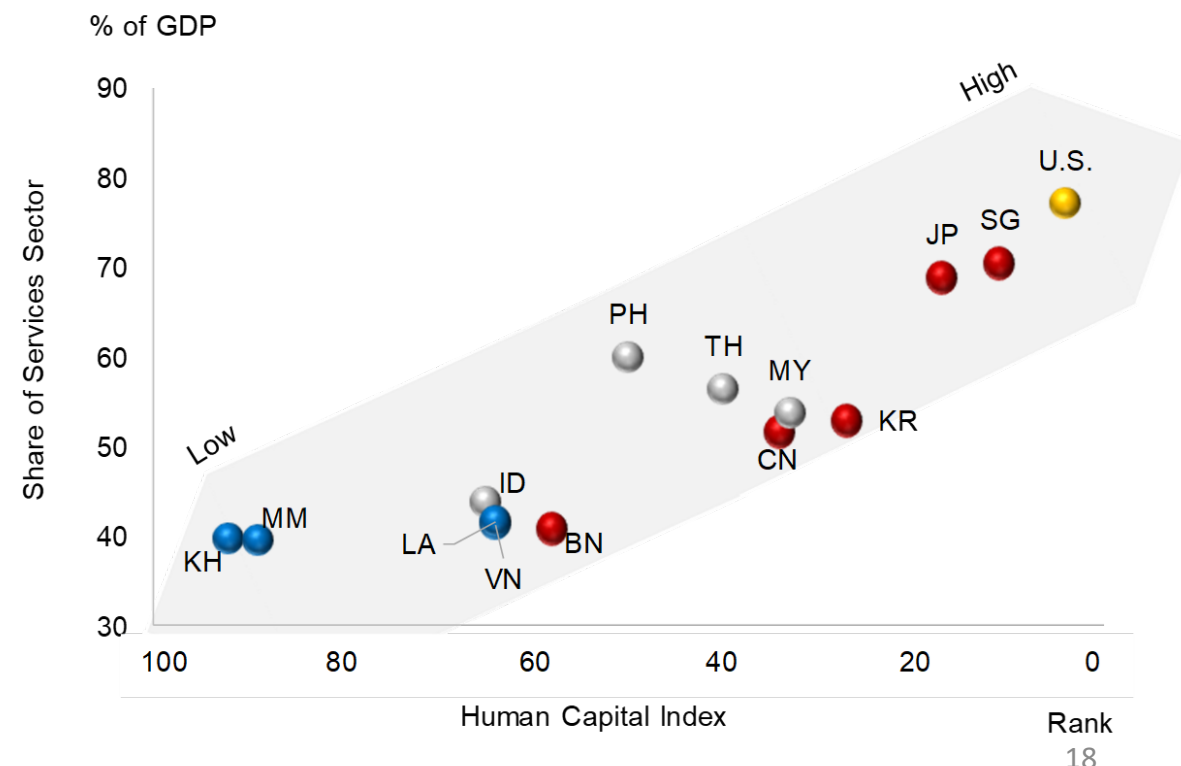
Hard infrastructure is indispensable for development, but soft infrastructure – including cross-country connectivity – is also key for unleashing the region’s growth potential and facilitating its transition to the “new economy”...

Hard and Soft Infrastructure and Regional Connectivity



Source: AMRO staff.

Human Capital and Services Sector Development, 2017

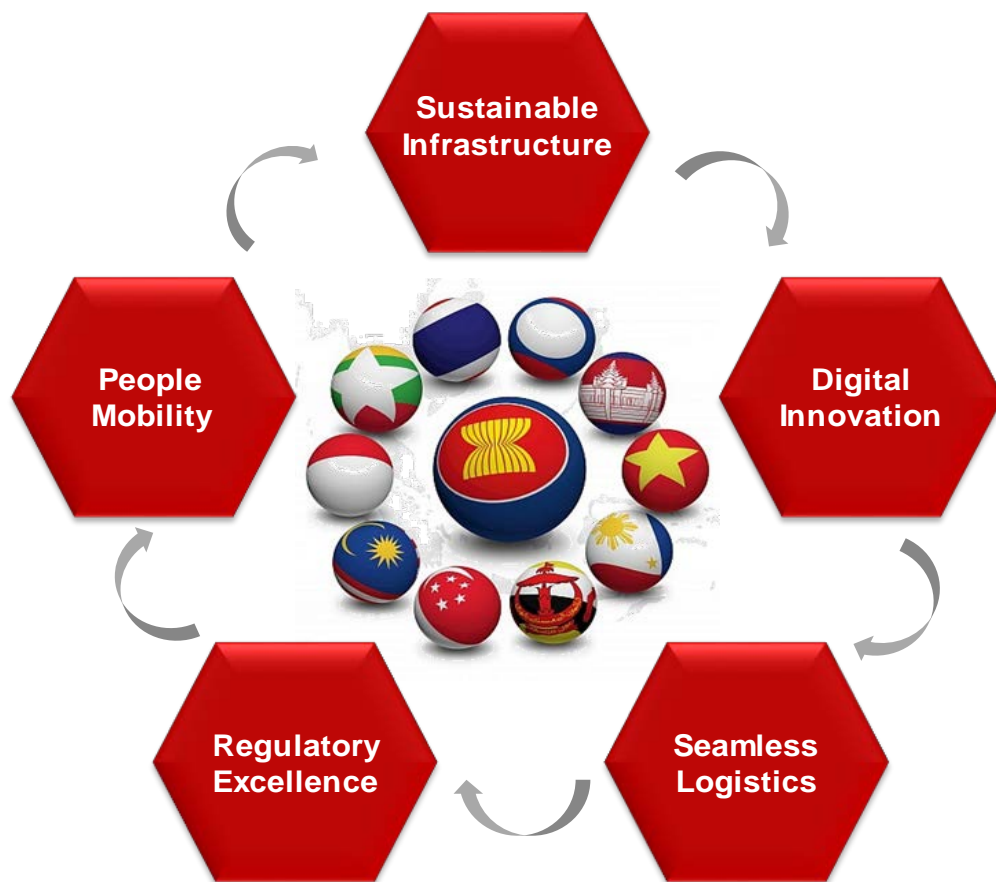


Source: World Economic Forum.

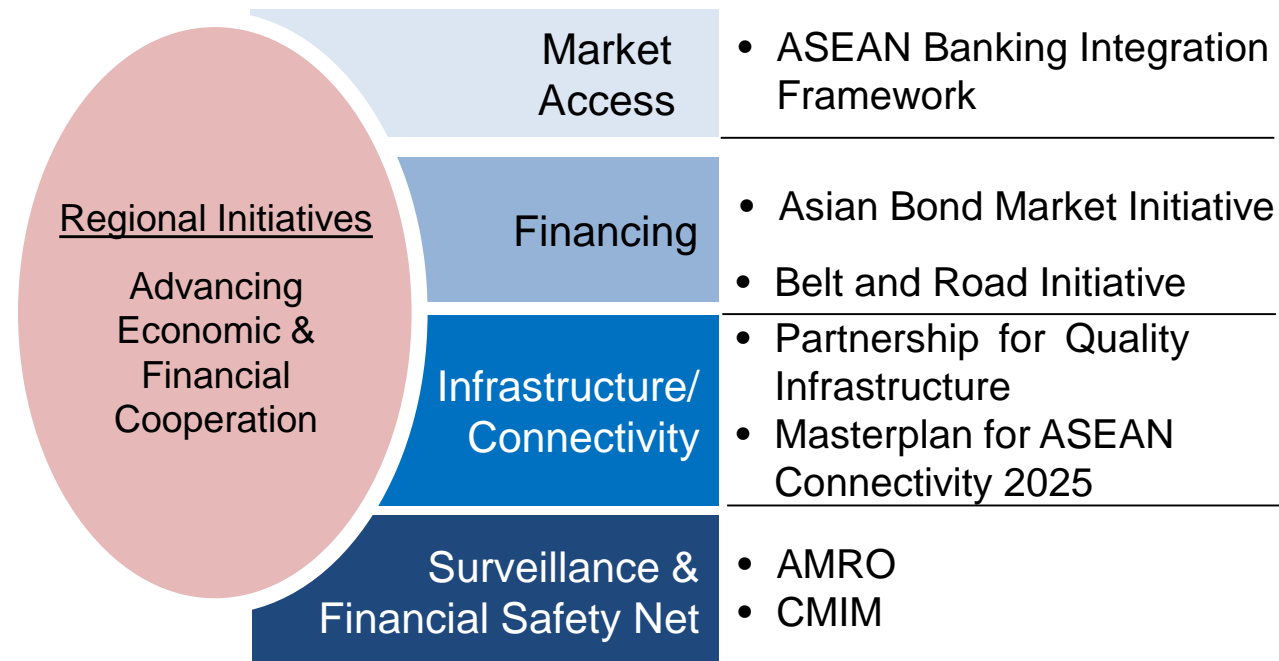


...while leveraging on regional initiatives

ASEAN: Master Plan for ASEAN Connectivity



ASEAN+3: Regional Economic and Financial Cooperation





EEC implementation is based on 3 pillars – an infrastructure upgrade, new industry development, and attracting investment. Infrastructure investment will support transportation, logistics and public utilities.

Infrastructure Upgrading in the EEC





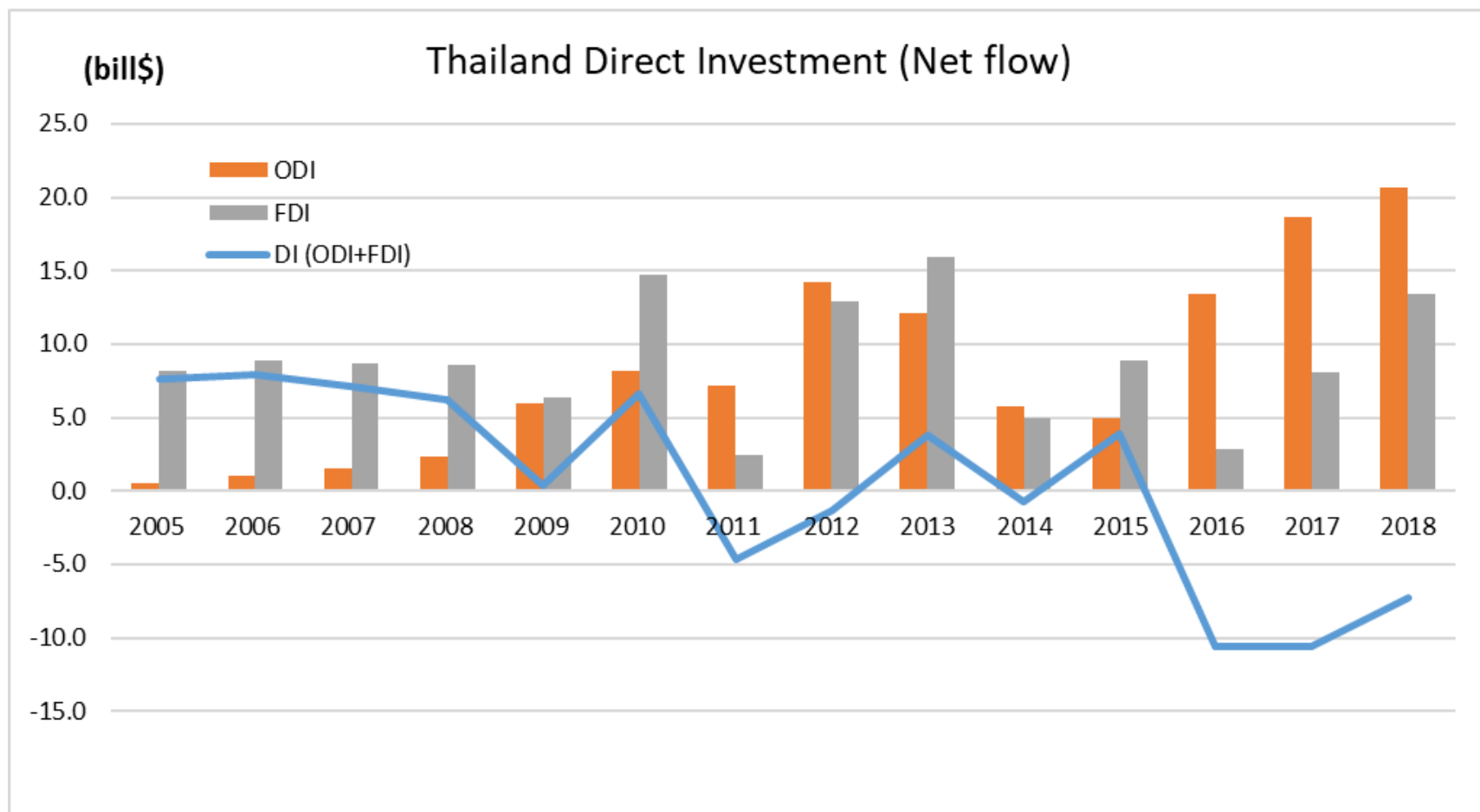
Thailand will target 10 industries such as next-gen automotives, smart electronics, medical tourism, biotechnology, food for the future, robotics, aviation and logistics, biofuels and biochemical, digital, and medical hubs.

5 Current Industries and 5 Future Industries

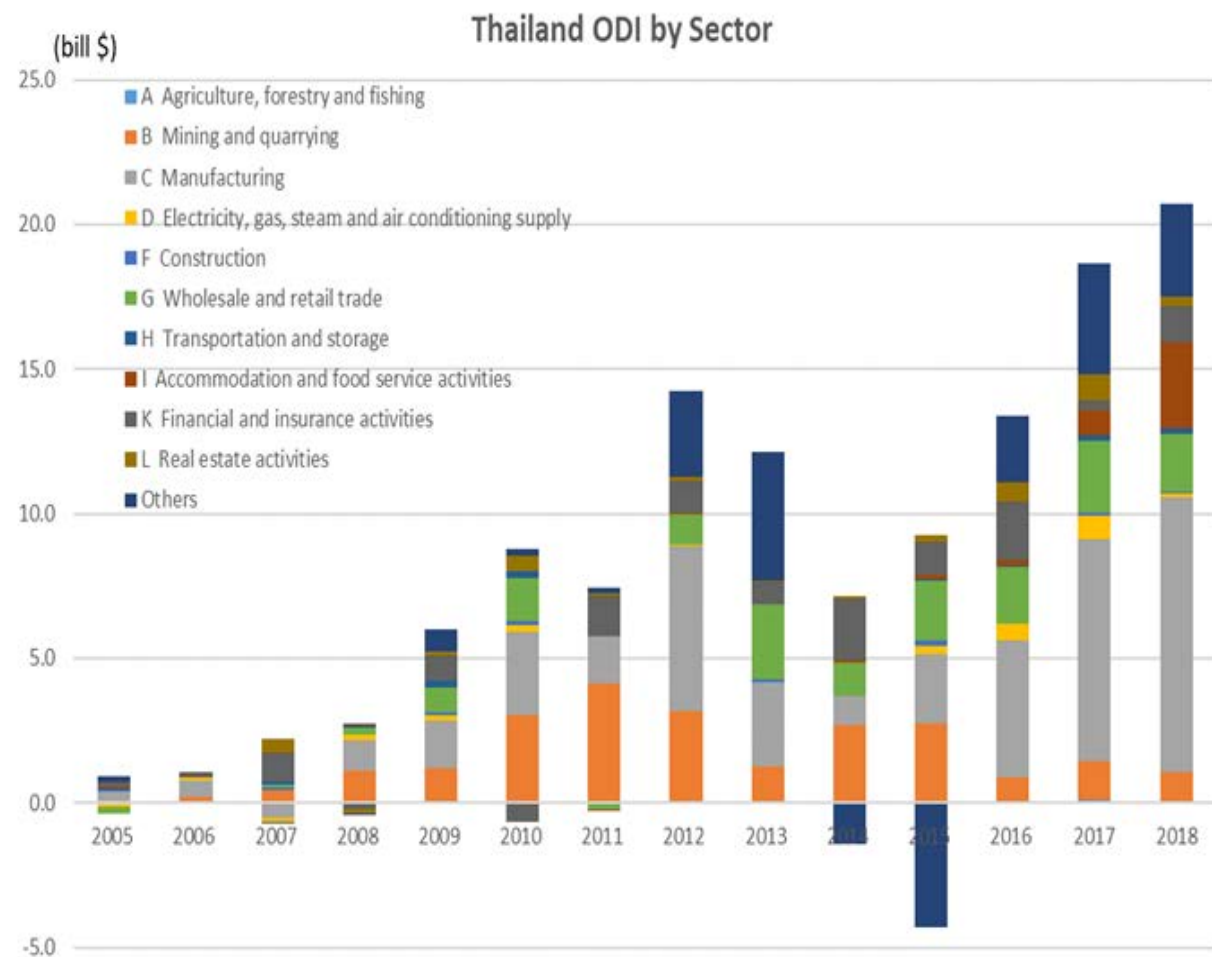
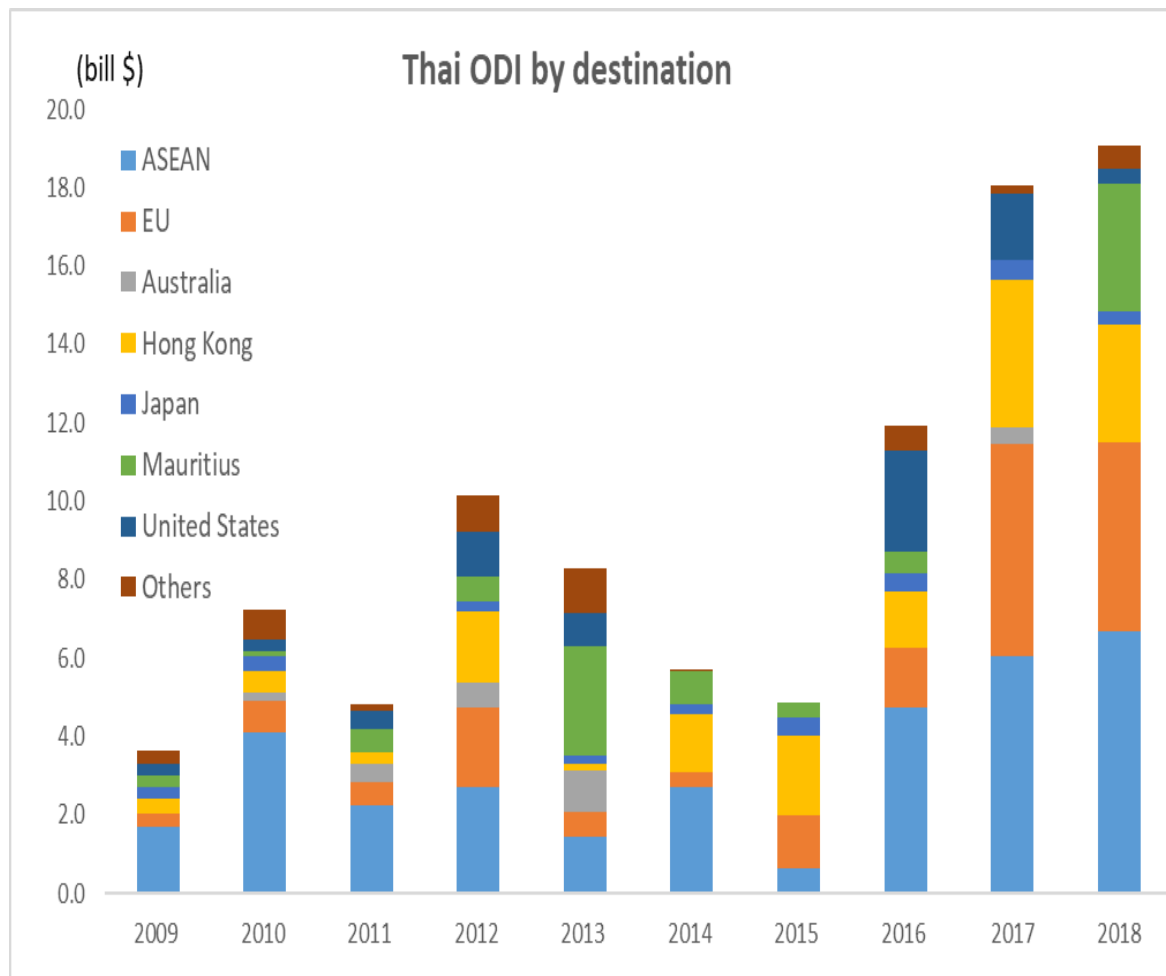




Thailand is strategically well-placed to be a recipient of high-technology FDI, infrastructure investments, and human capital from the region.



At the same time, Thailand is well-placed to be a subregional TCLMV center and source of investment and knowhow to other countries in the region.



Thank You

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