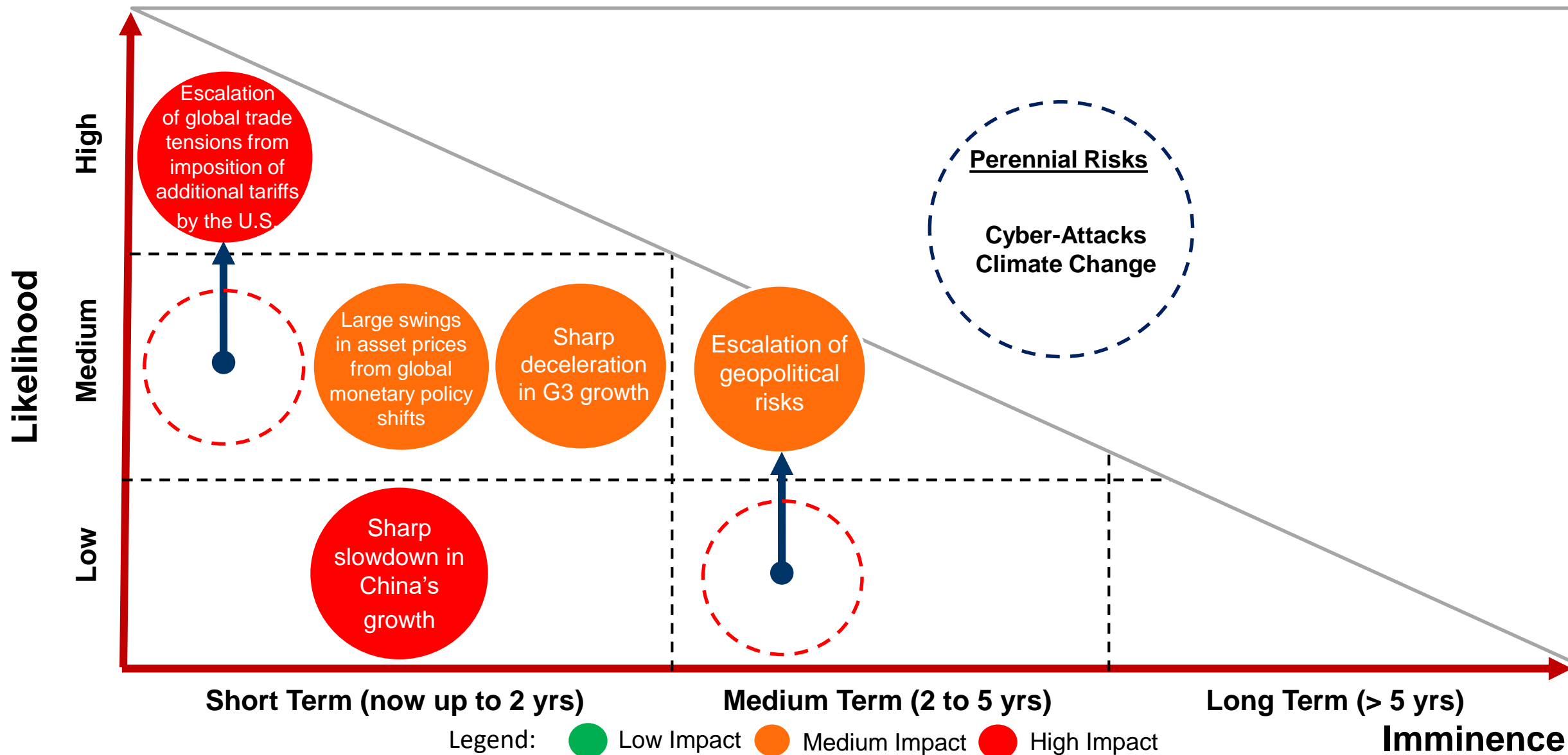


# **ASEAN+3 Regional Economic Outlook 2019: Building Capacity and Connectivity for the New Economy**

6 August 2019  
Kuala Lumpur, Malaysia

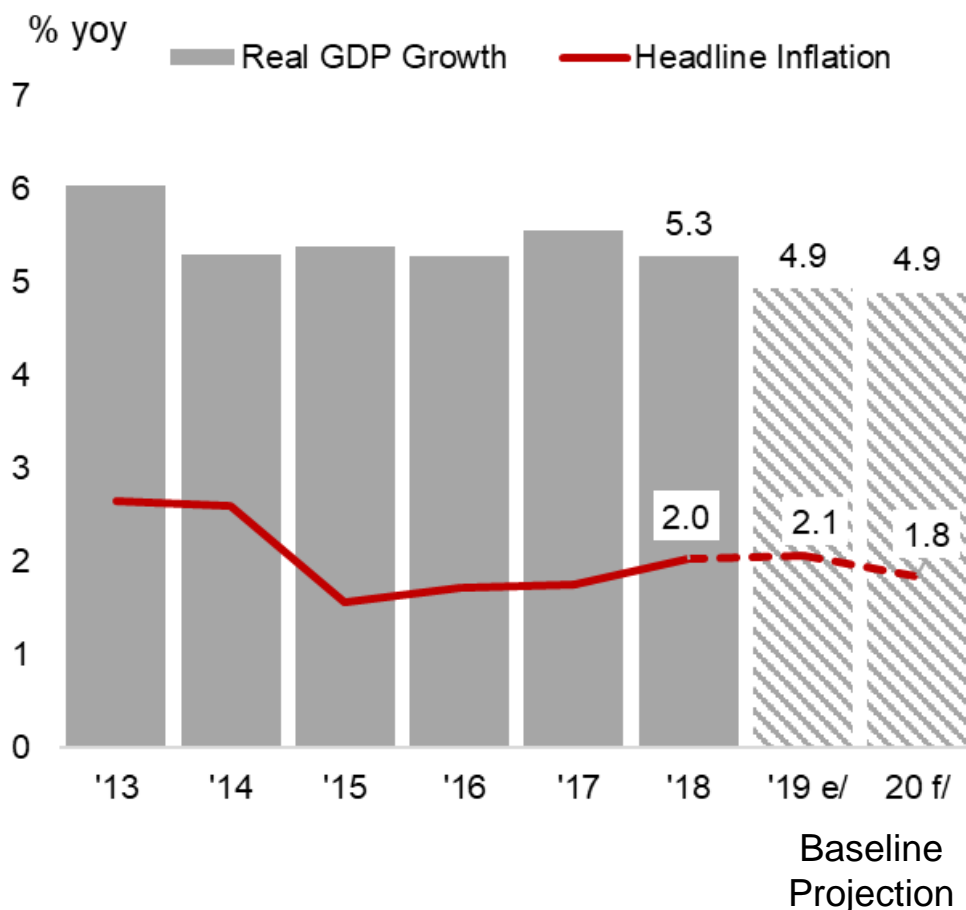
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- 1 | Near Term Macroeconomic Prospects & Challenges**
- 2 | Longer Term Structural Shifts:  
Building Capacity and Connectivity for the New Economy**



## 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
<b>ASEAN+3</b>	<b>5.3</b>	<b>4.9</b>	<b>4.9</b>	<b>4.7</b>

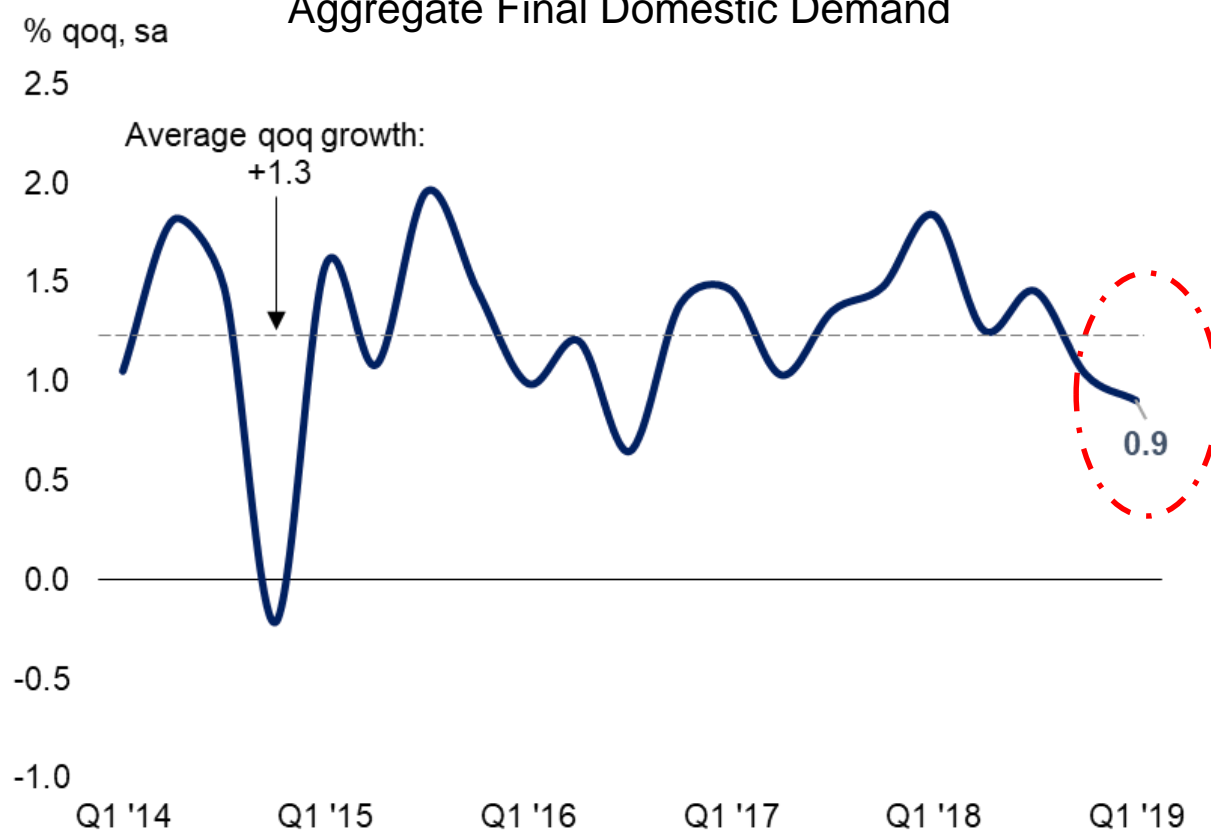
Legend: Upward revision from AREO 2019 (May)  
 Downward revision from AREO 2019 (May)  
 No change from AREO 2019 (May)

e/ Estimates p/ Projections

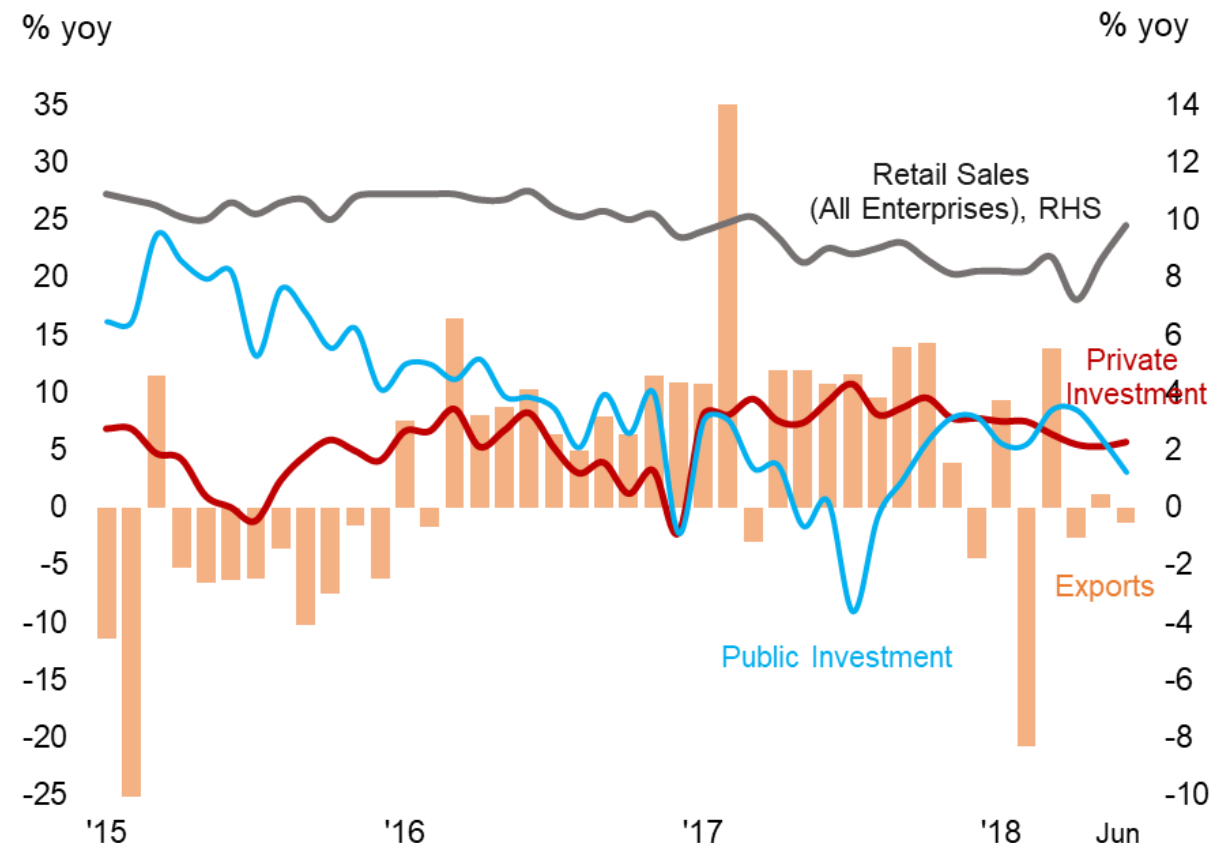
Sources: National Authorities, and AMRO staff calculations.

## 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

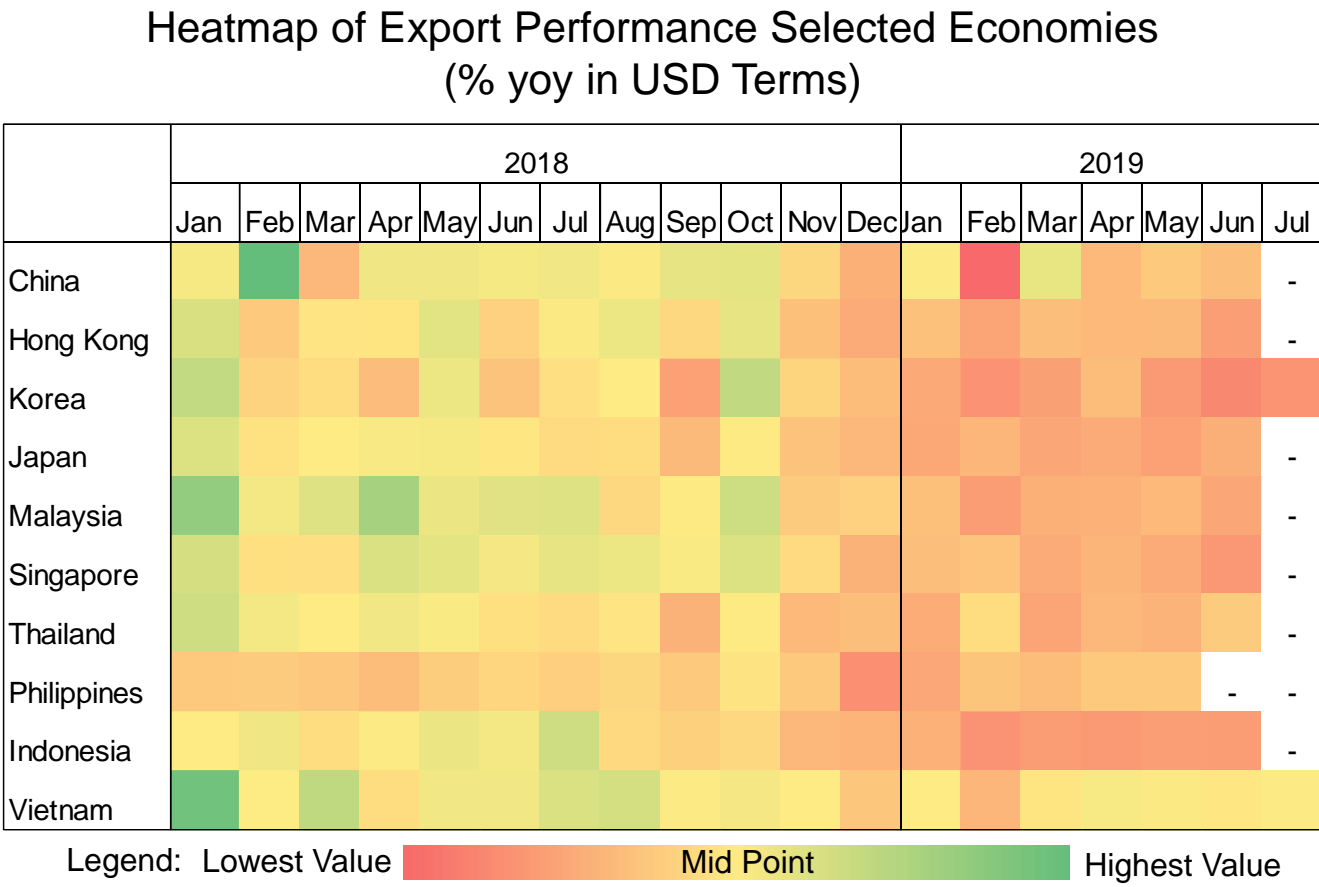
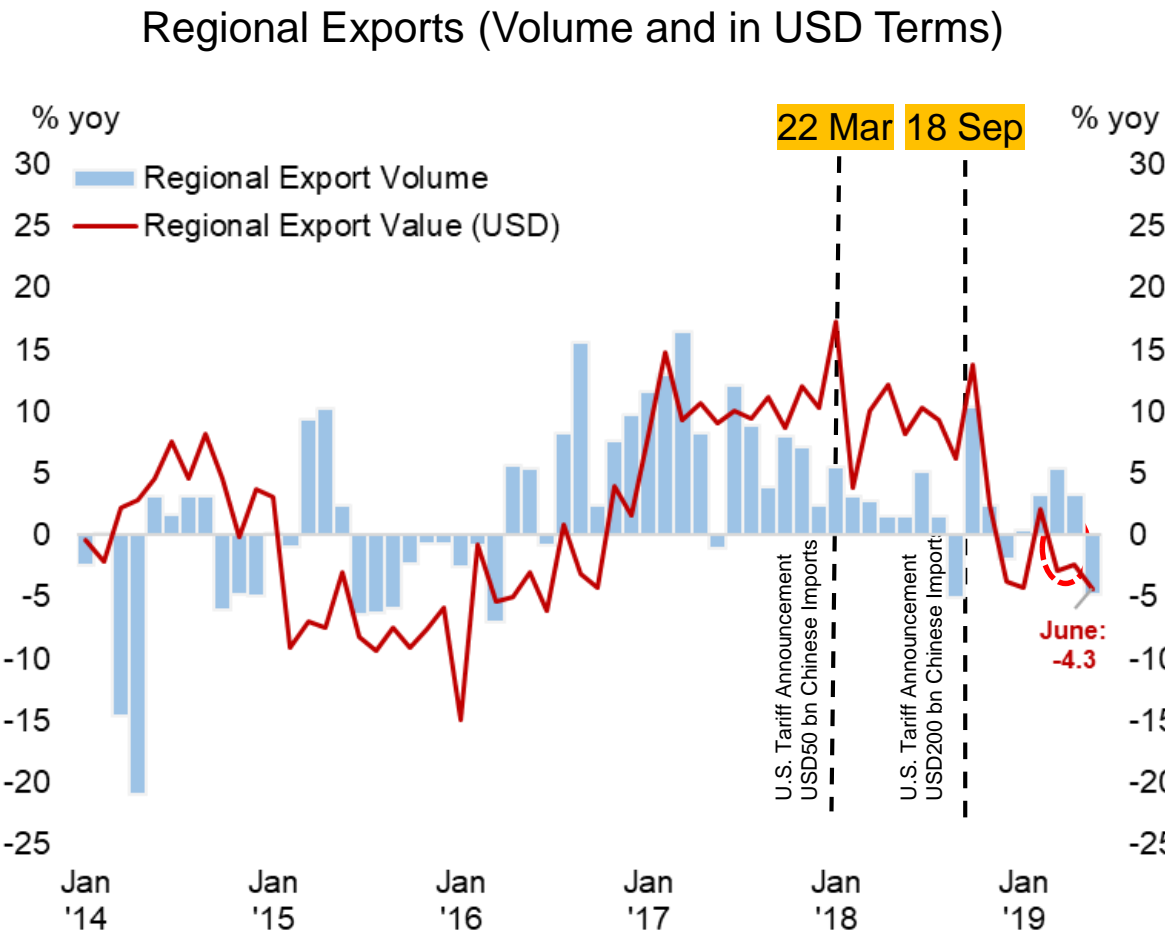


China: Domestic Demand Indicators



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

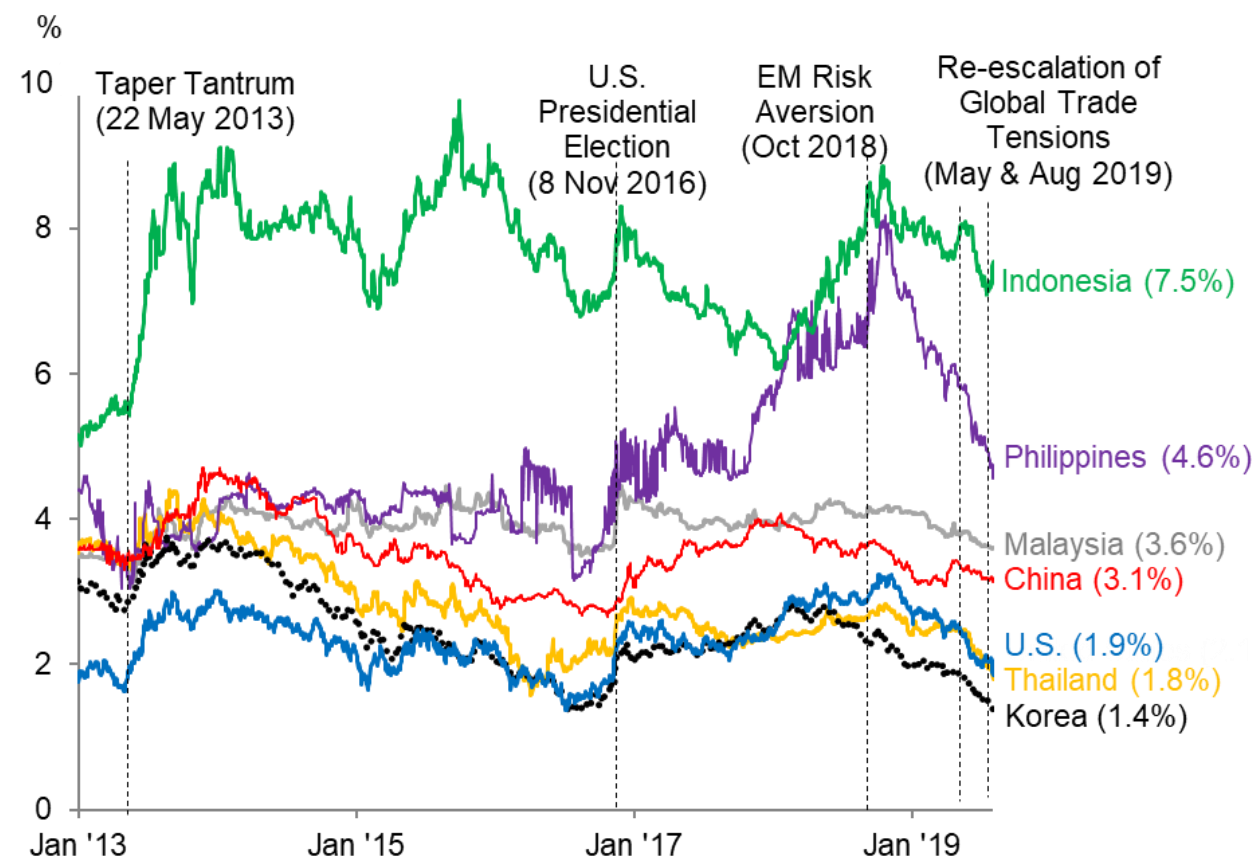
# Regional exports continued to face external headwinds, with the more open economies being disproportionately affected



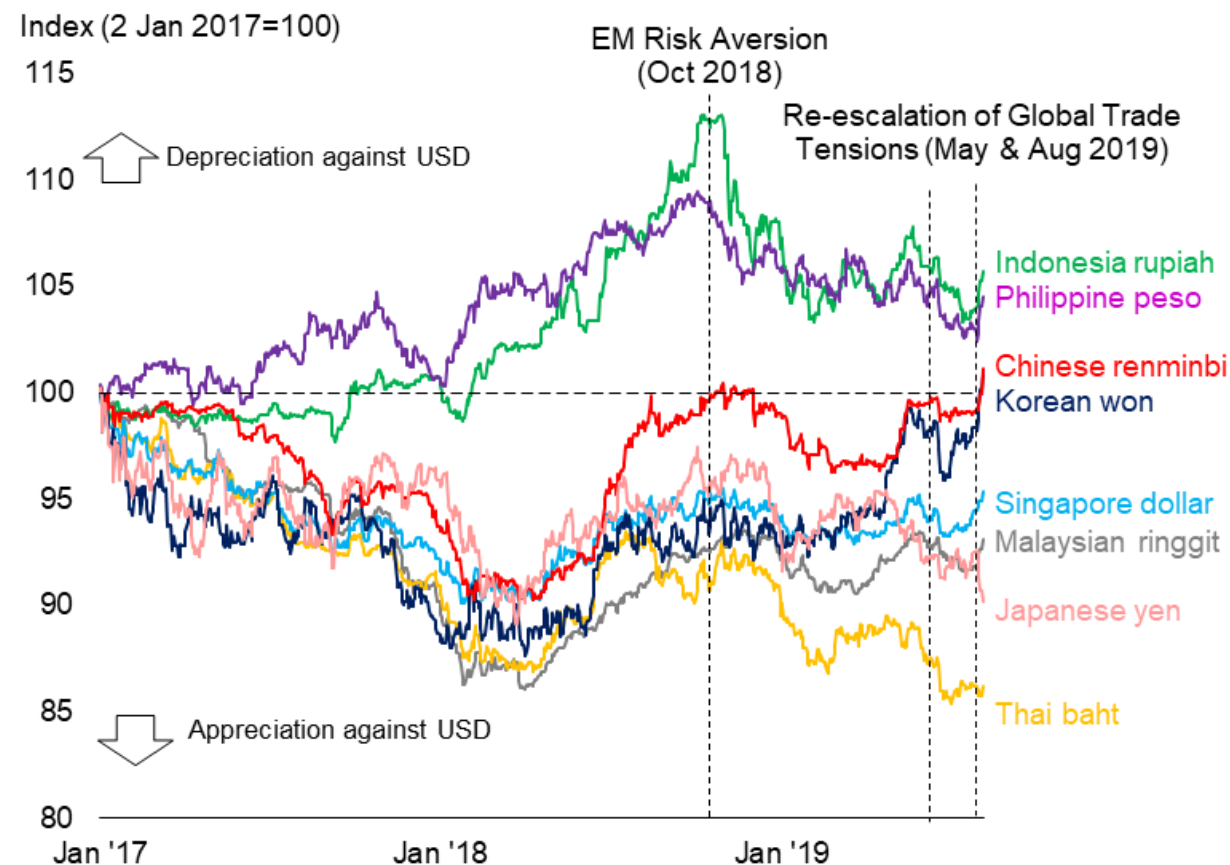
Sources: National authorities, and Haver Analytics.

## 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



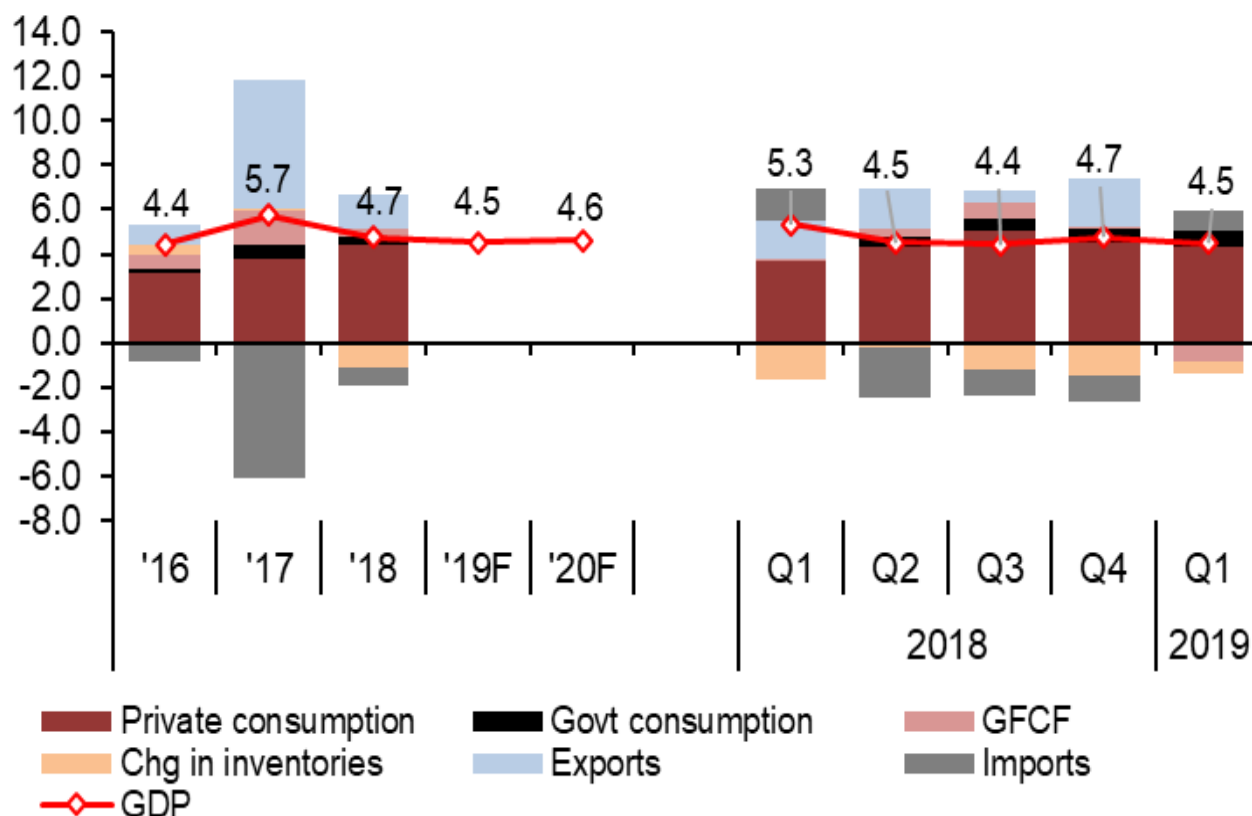
Sources: National authorities, and AMRO staff calculations.

Notes: Data as of 2 Aug 2019 (yields) and 5 Aug 2019 (FX rates)

## Malaysia's economic growth is expected to remain moderate in 2019-20 with benign inflation, amid growing downside risks from prolonged global trade uncertainties

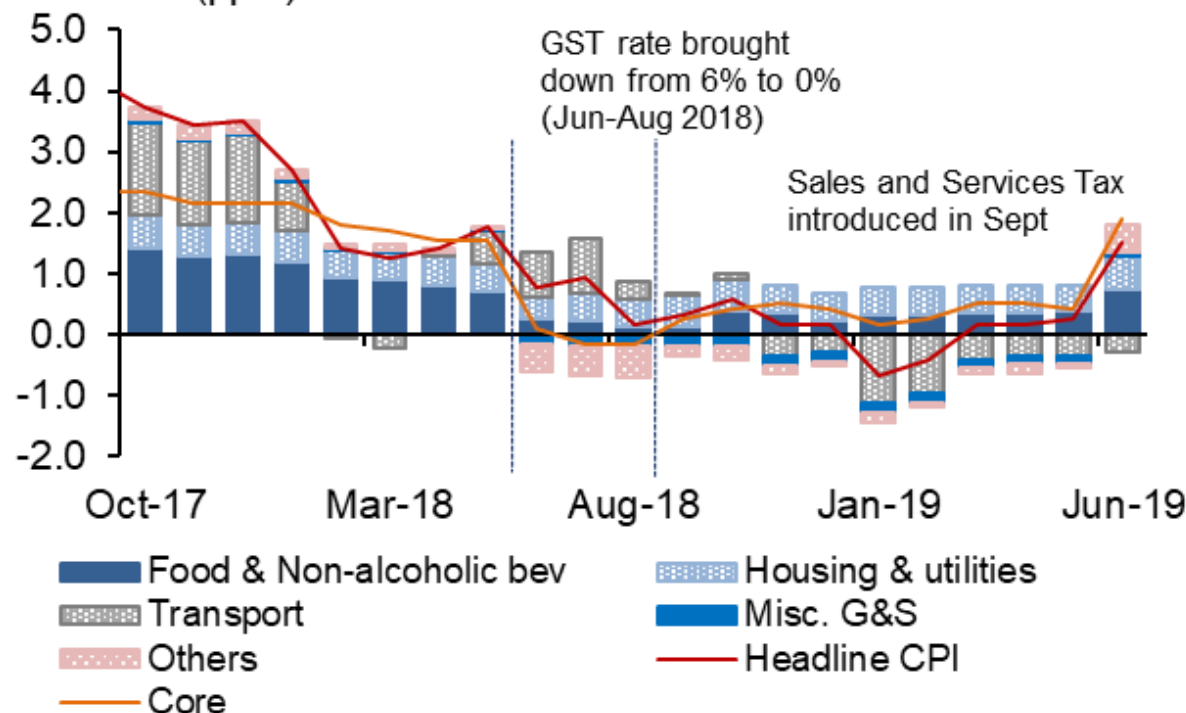
### GDP Growth

Contributions to %yoy GDP growth



### Headline & Core Inflation

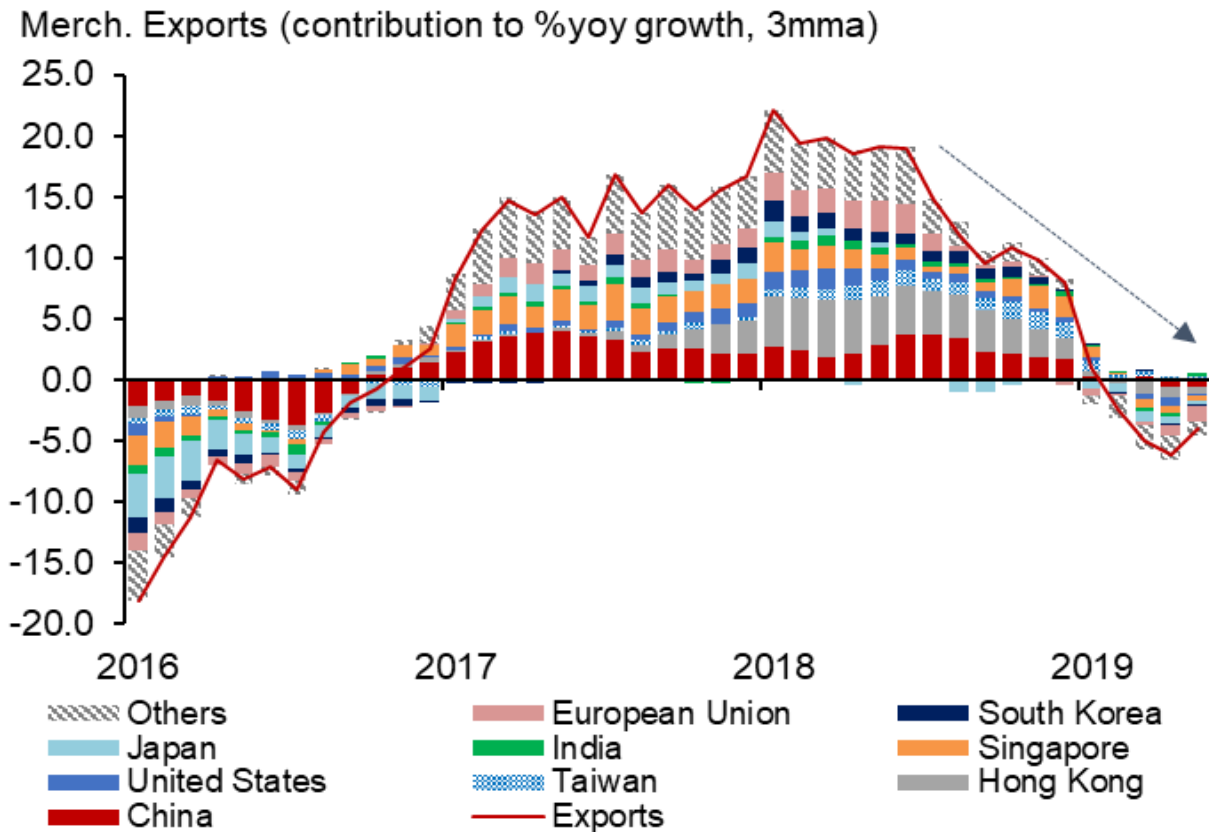
Inflation (ppts)



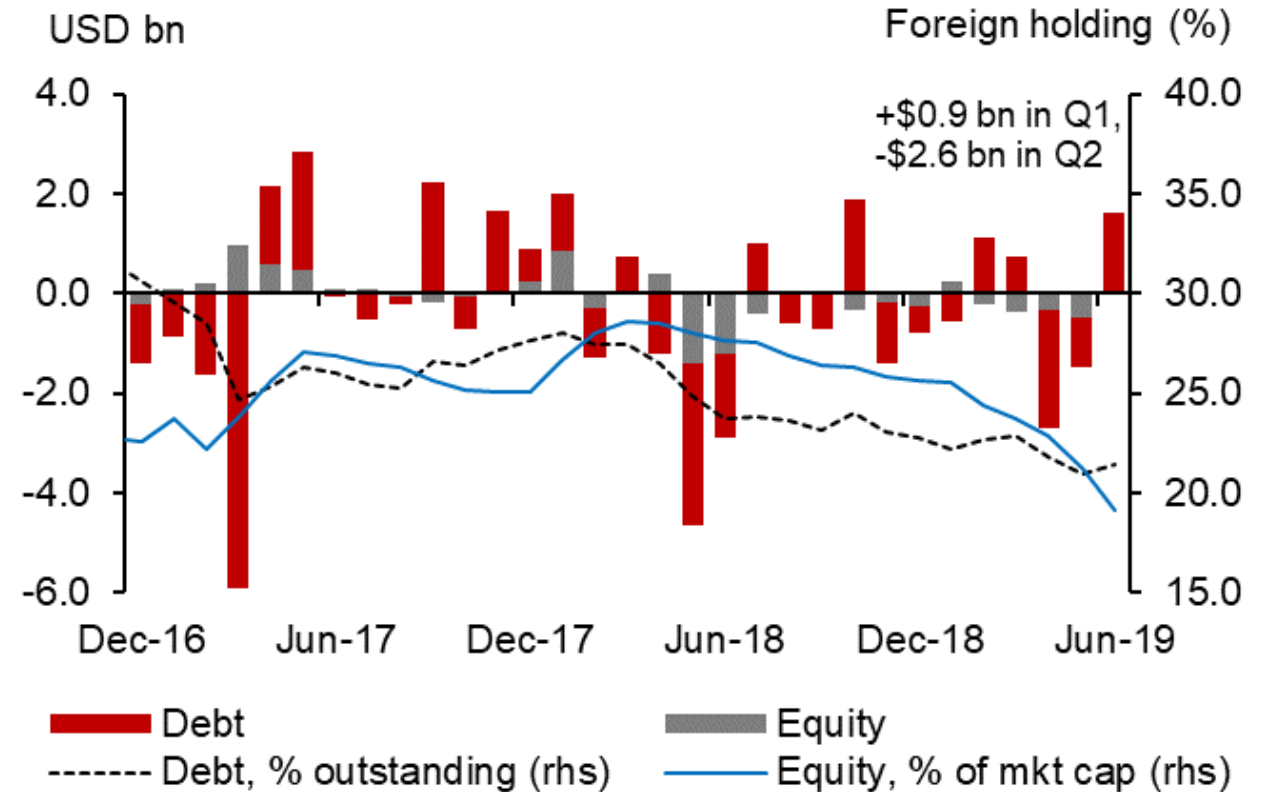


**External vulnerabilities have risen as export growth has decelerated sharply, while frequent shifts in investor sentiment underscore the need to uphold fiscal consolidation and rebuild buffers**

Exports



Non-Resident Portfolio Investment Flows



# 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

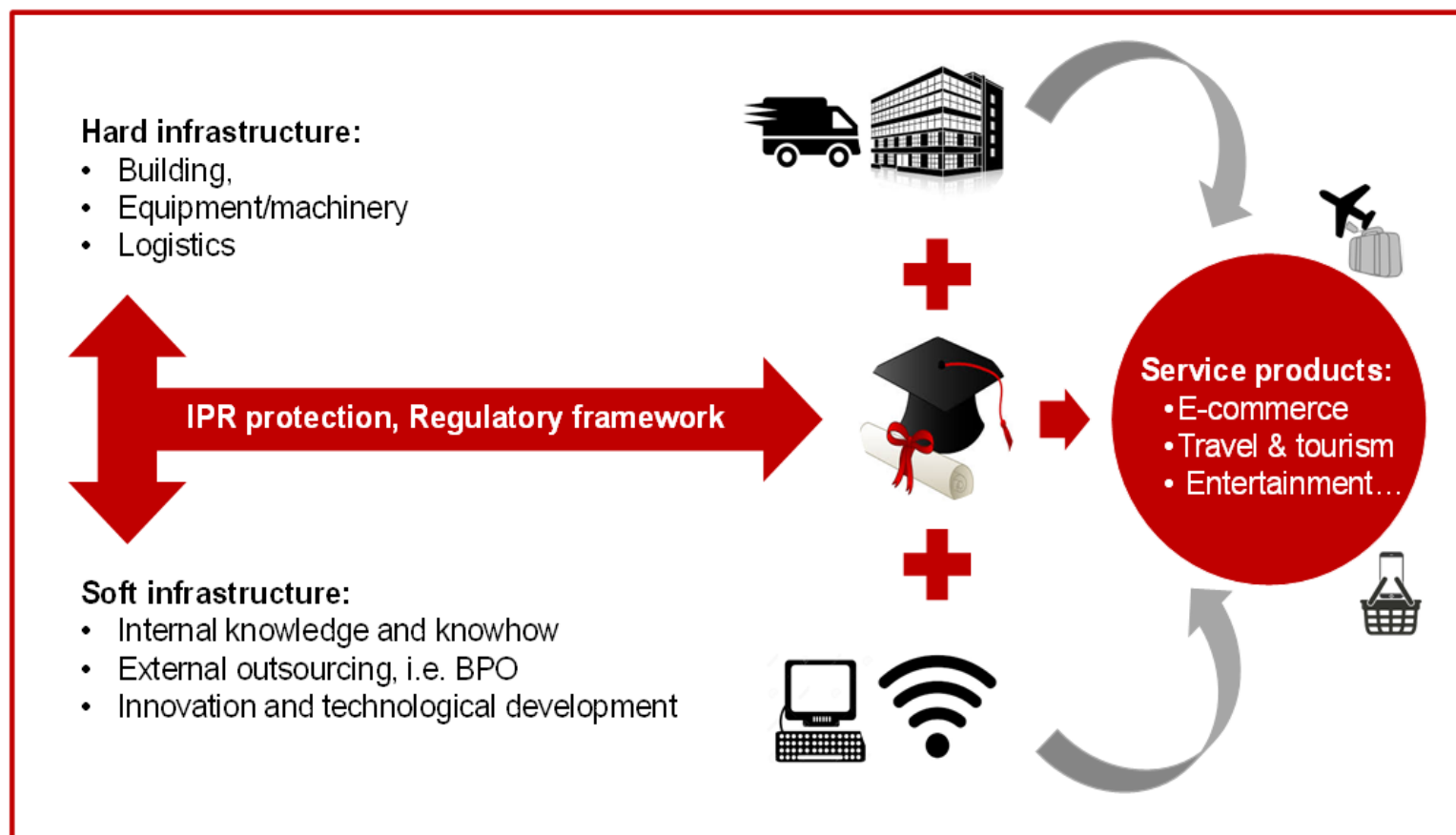
- Building capacity and connectivity to foster future growth potential and resilience

- 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

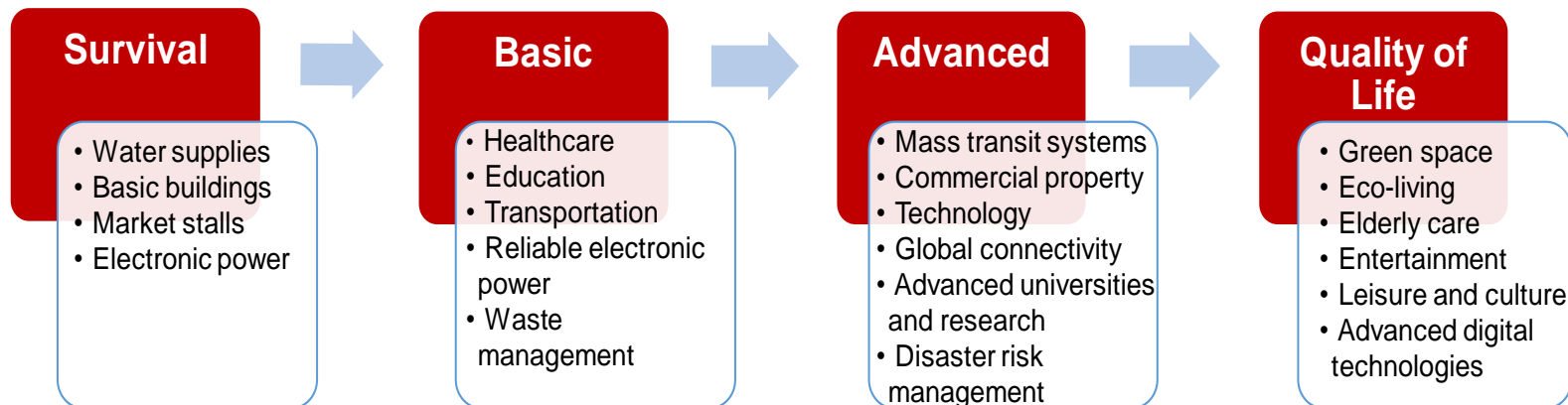
## Services Value Chains in the New Economy: Stylized Representation



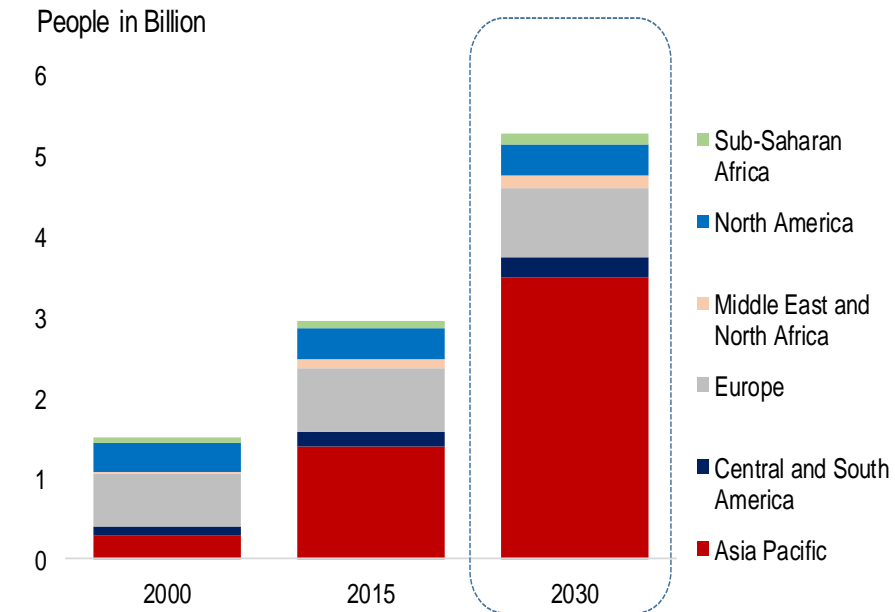
## 2

## Maturing population & rising middle class – Driving new demand

### Infrastructure Needs for Demographic Shifts Alongside Economic Development



### Global Middle Class Population

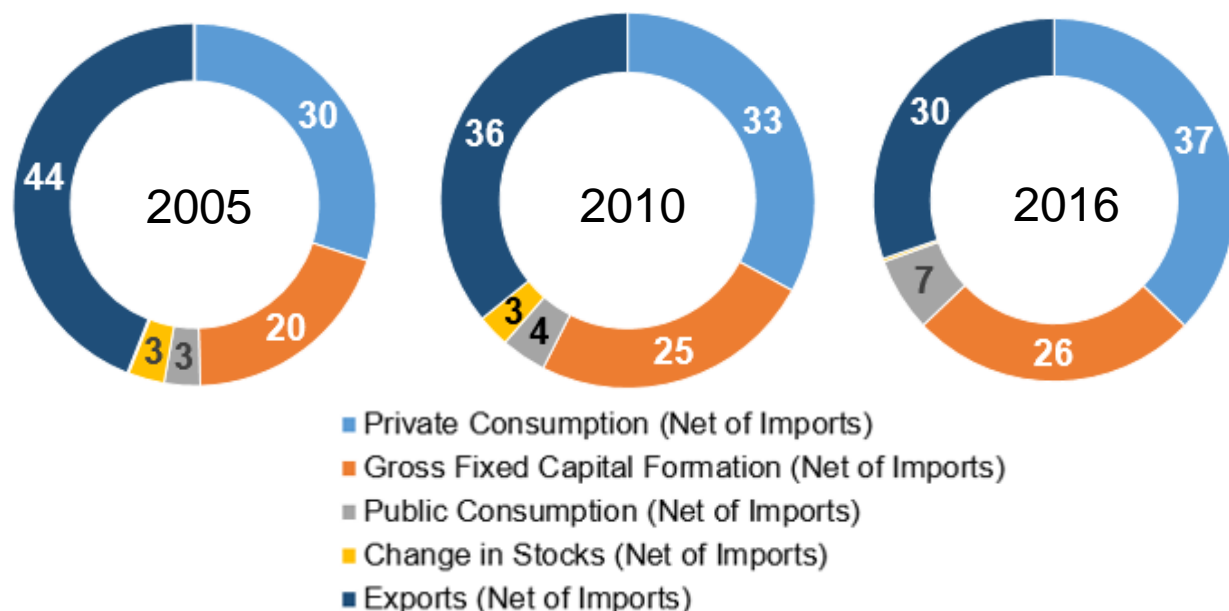


Source: Kharas 2017.

## 3 Growth rebalancing & regional integration – Driving regional demand

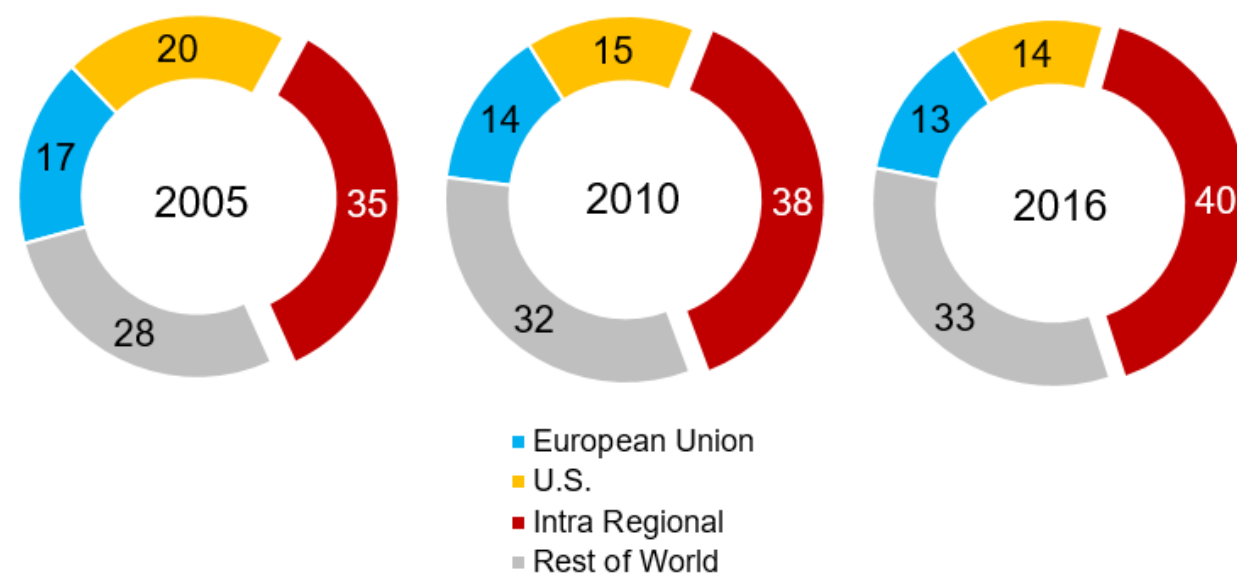
ASEAN-4 and Vietnam

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



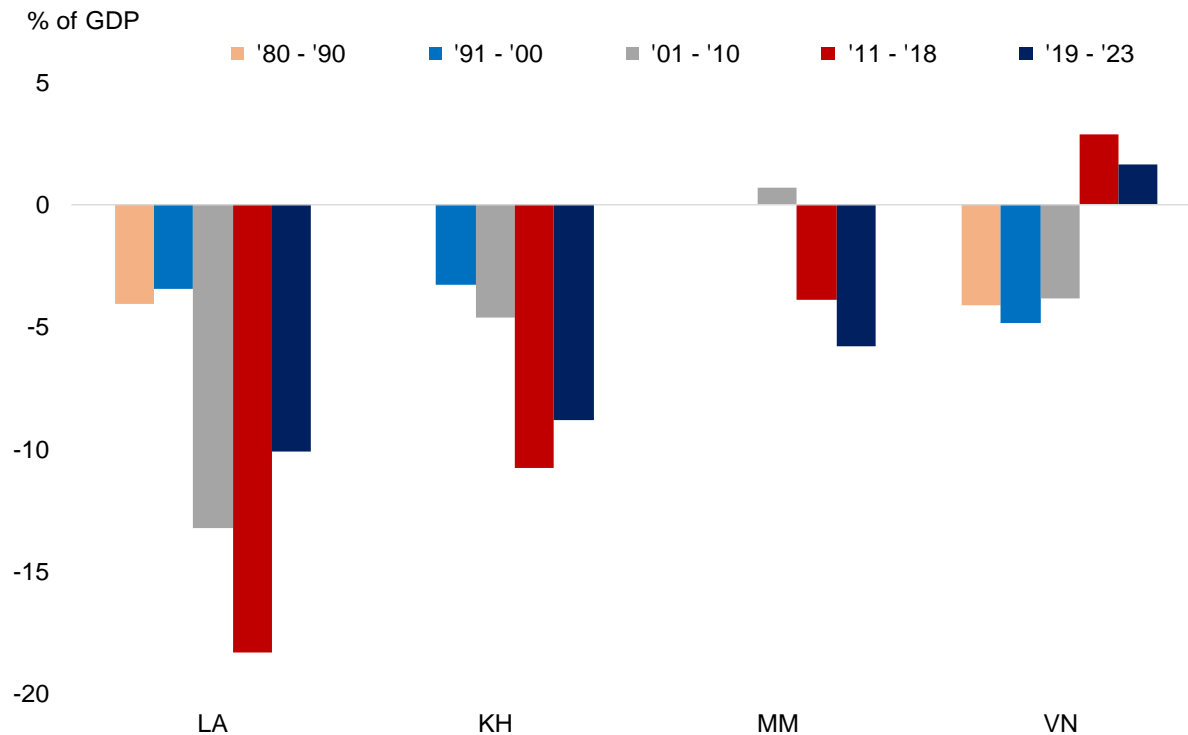
ASEAN's Value-Added Exports

(% Share, by Major Destinations)

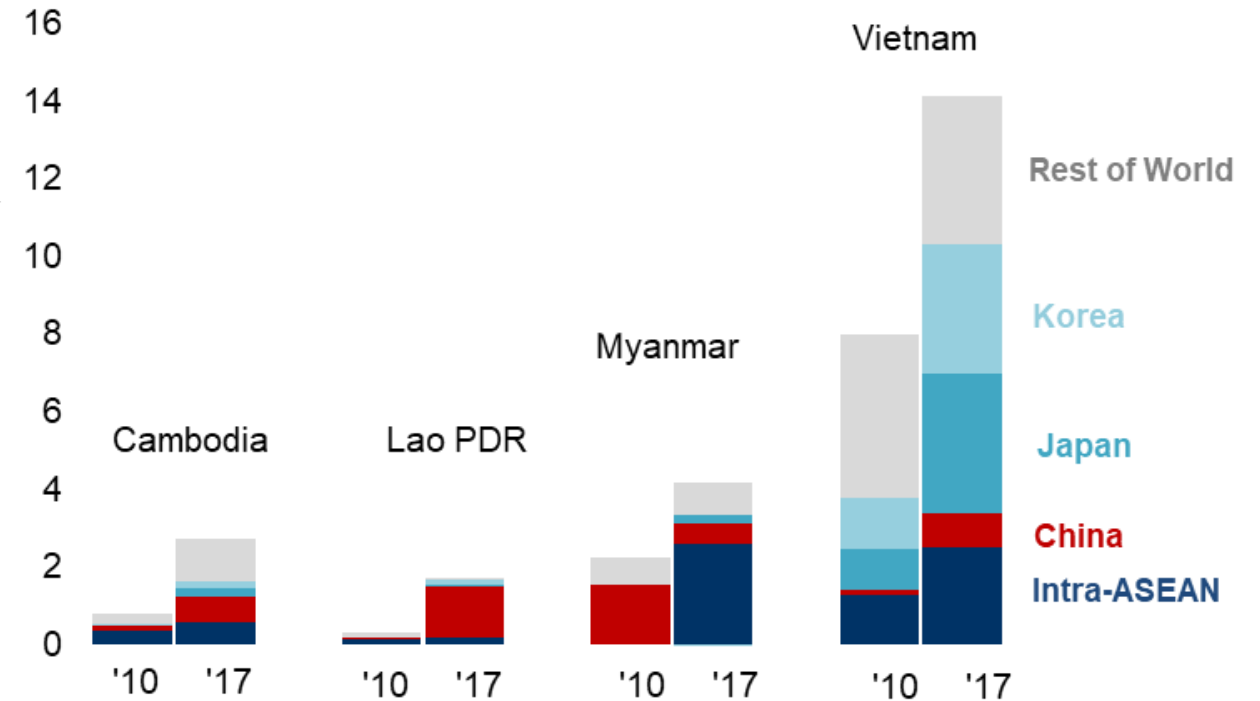


## Funding Gap in CLMV countries – Low savings rate, but high investment needs

Current Account Balance:  
CLMV Economies



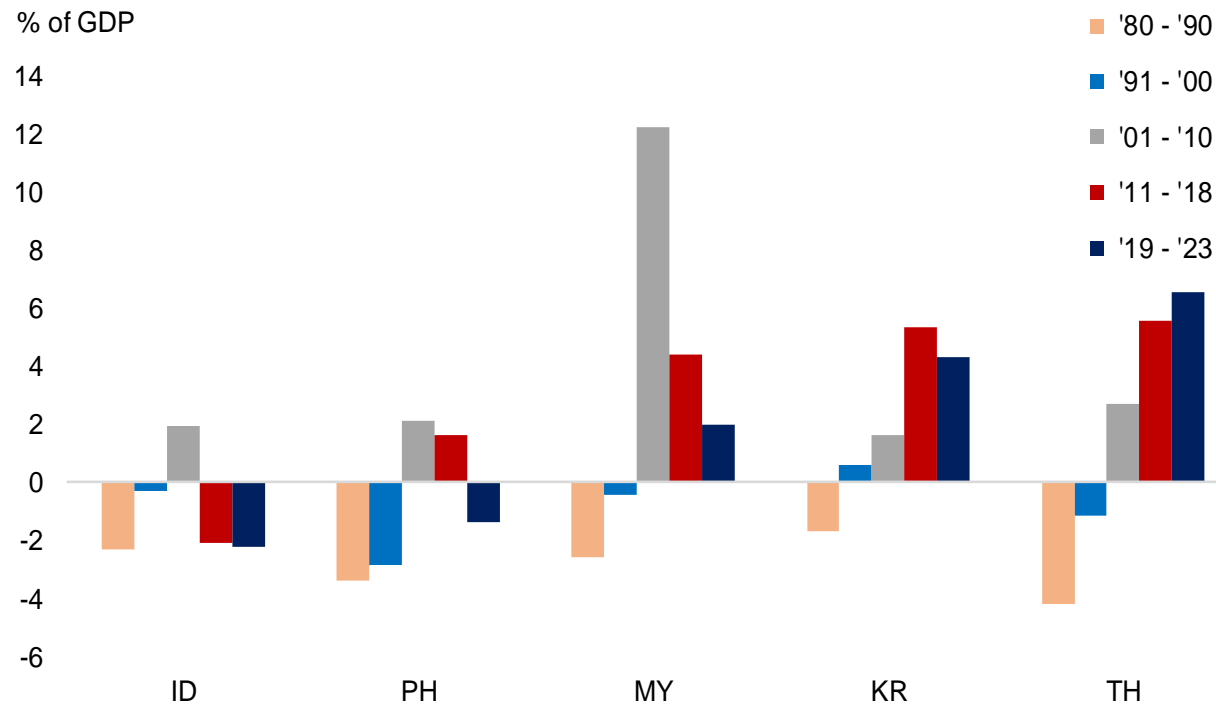
Inward FDI Flows into CLMV Economies  
by Source Countries



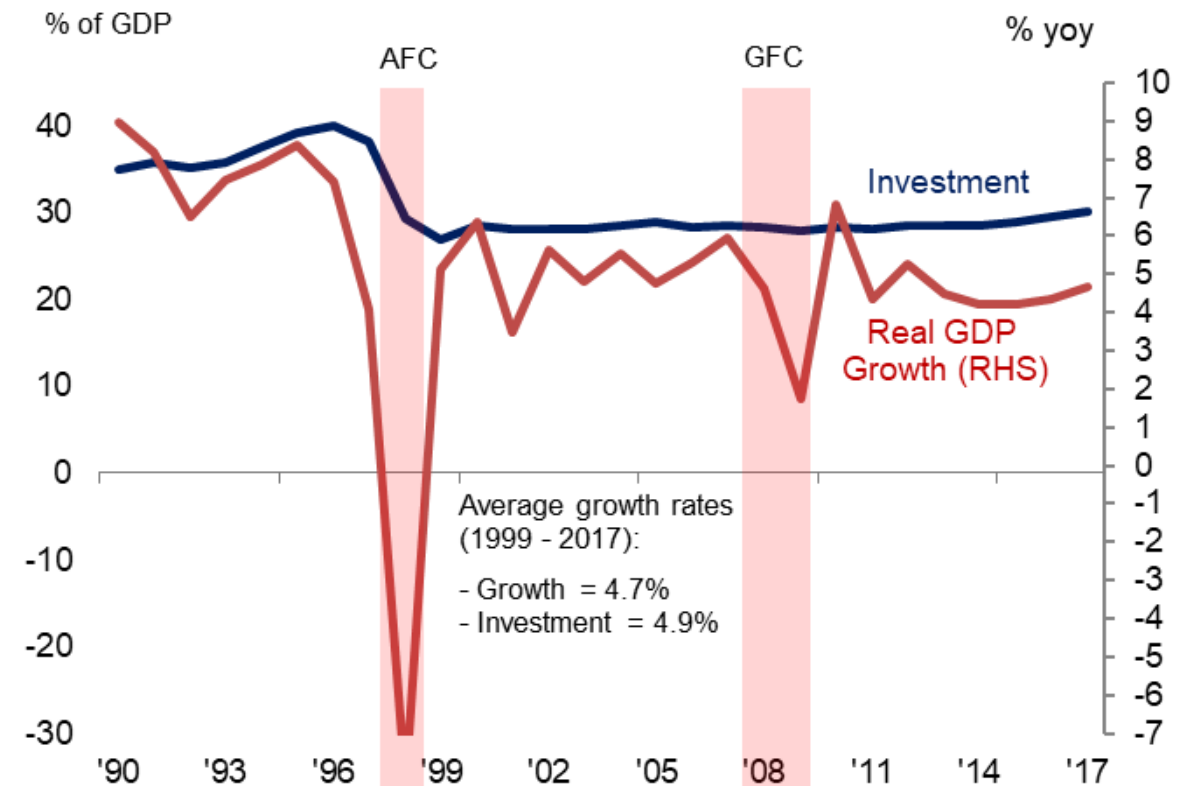


## FX Gap in ASEAN-4 & Korea – Needed to save more, holding down investment

ASEAN-4 and Korea:  
Current Account Balance

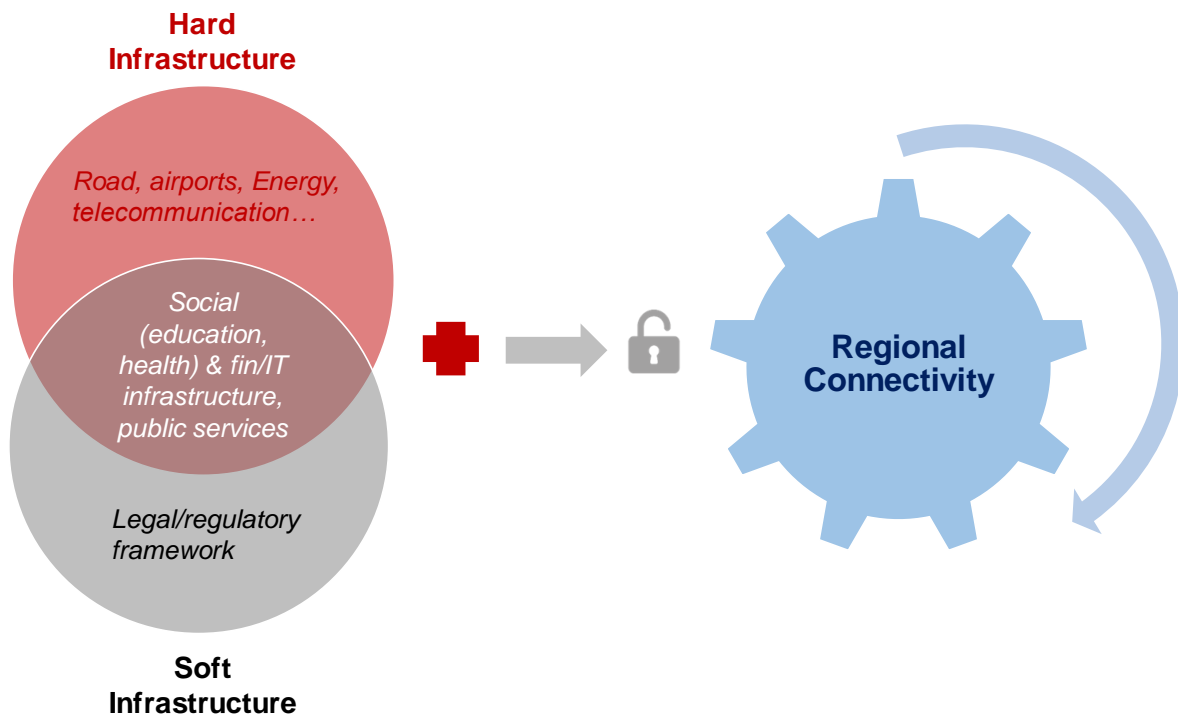


ASEAN-4 and Korea:  
Investment and Overall Real GDP Growth



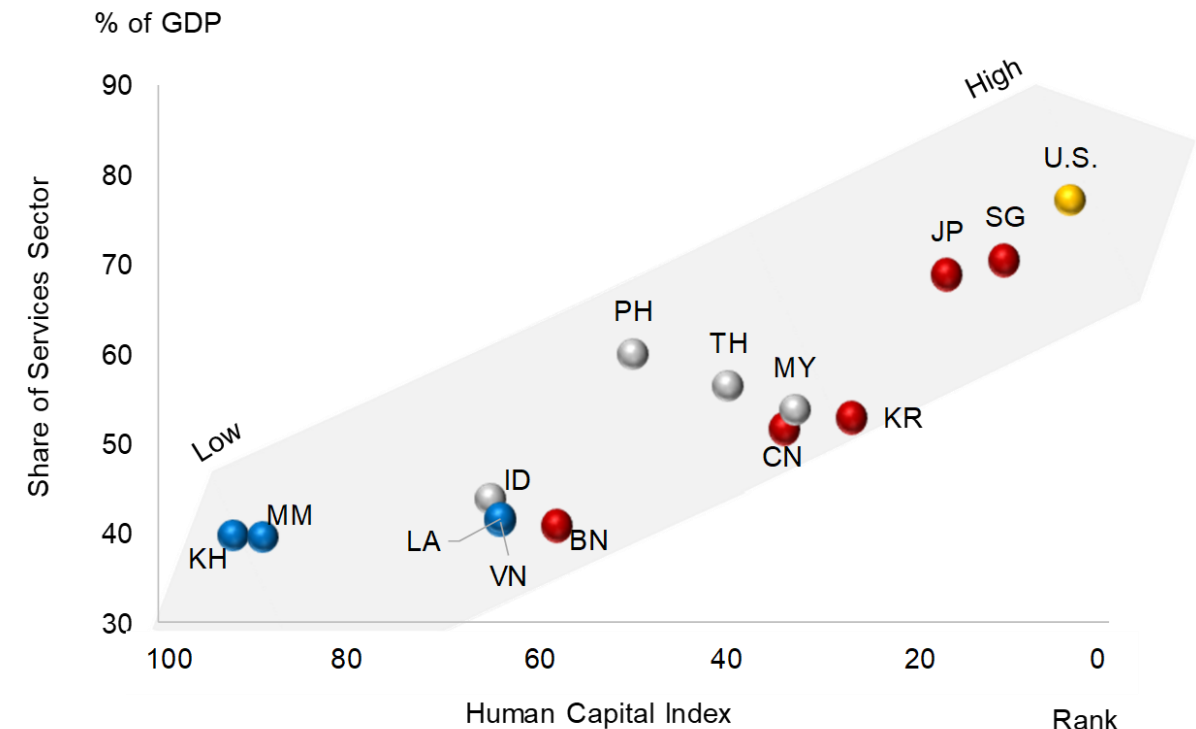
**Hard infrastructure is indispensable for development, but soft infrastructure – including cross-country connectivity – is also key for unleashing the region’s growth potential and facilitating its transition to the “new economy”...**

Hard and Soft Infrastructure and Regional Connectivity



Source: AMRO staff.

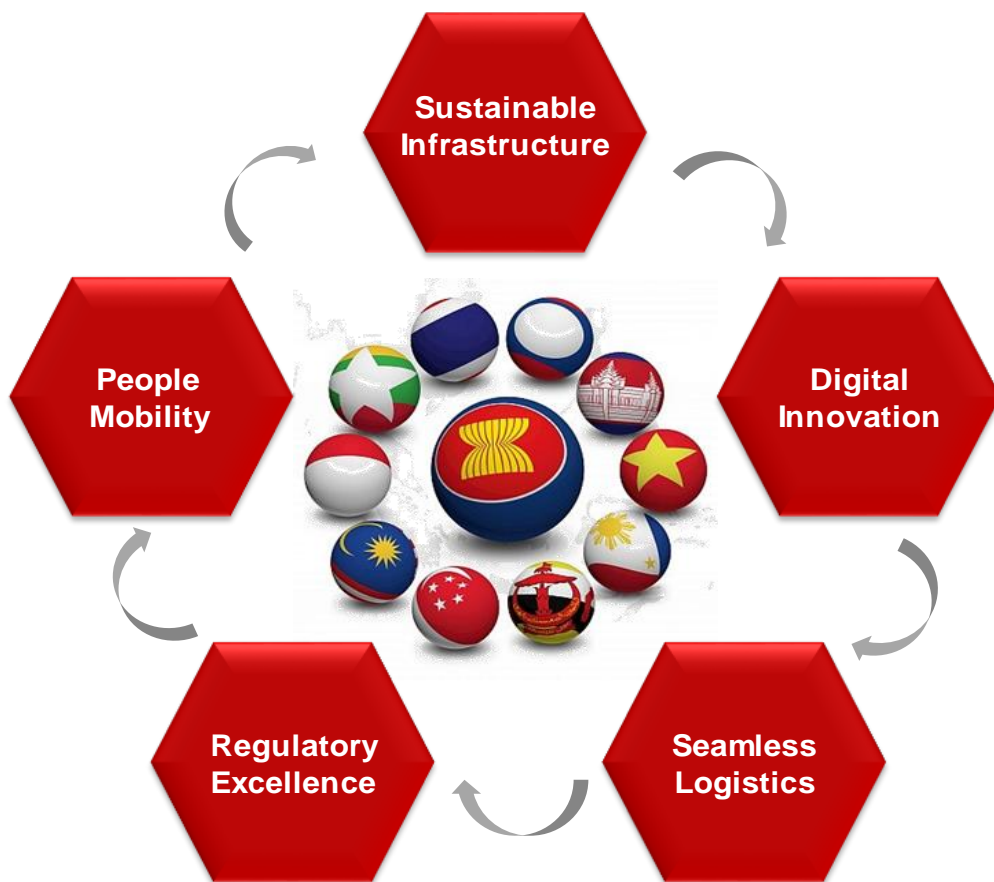
Human Capital and Services Sector Development, 2017



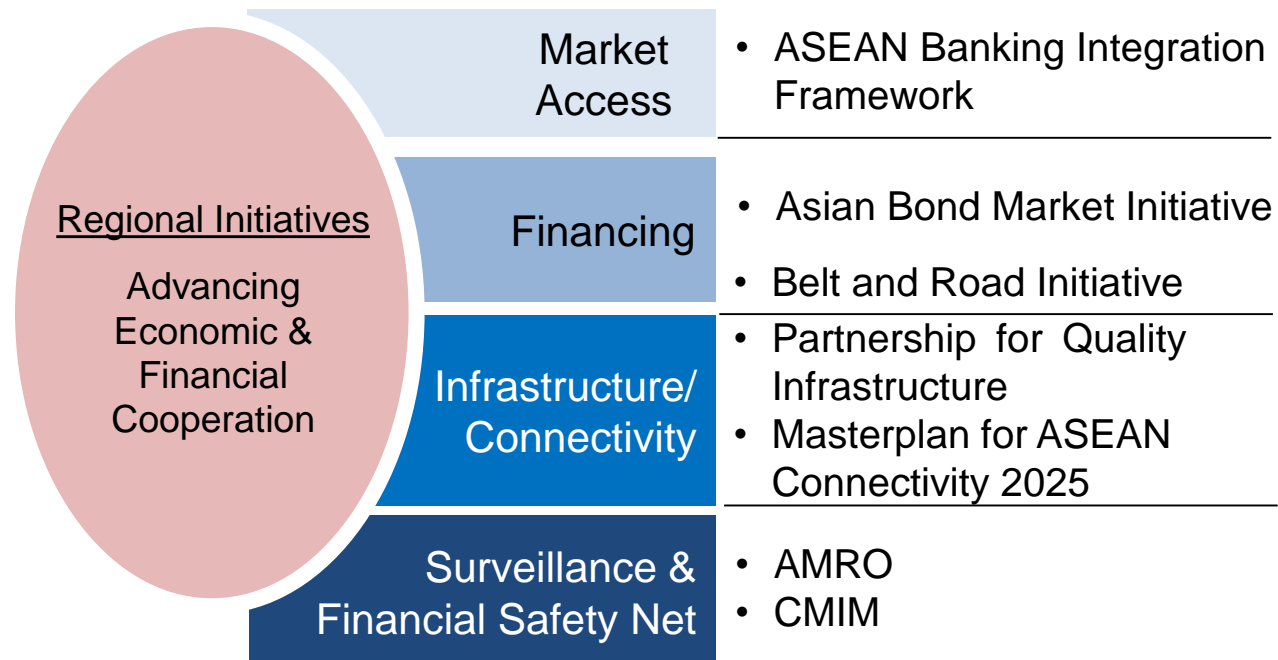
Source: World Economic Forum.

## ...while leveraging on regional initiatives

ASEAN: Master Plan for ASEAN Connectivity



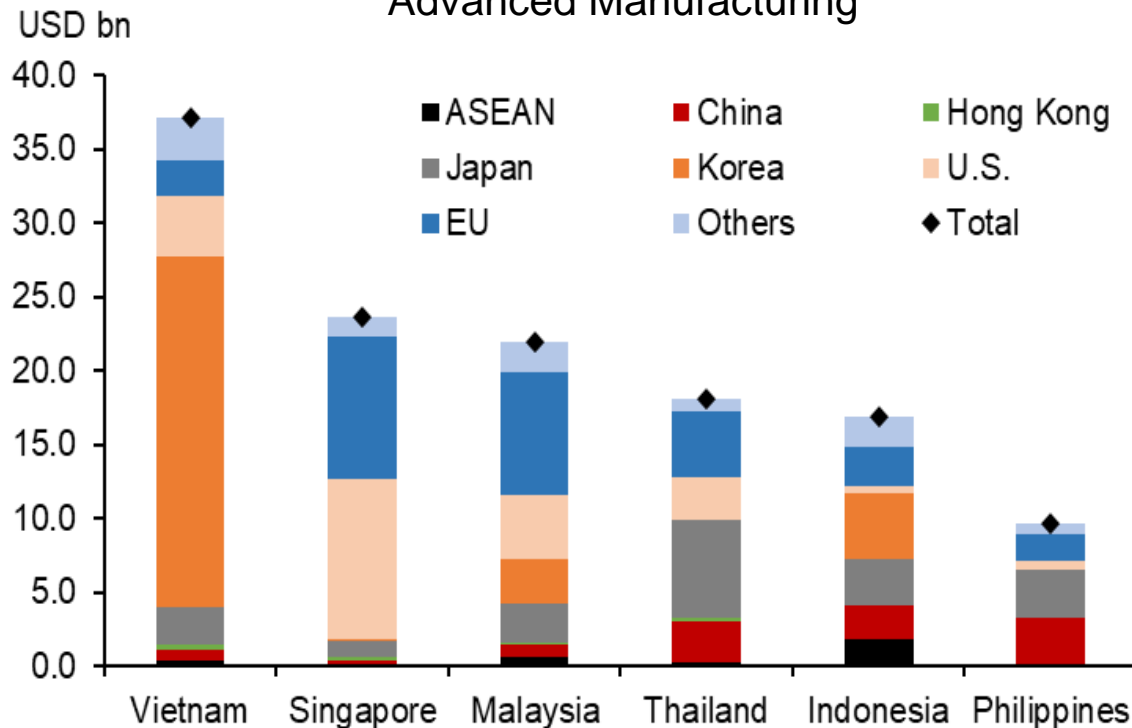
ASEAN+3: Regional Economic and Financial Cooperation



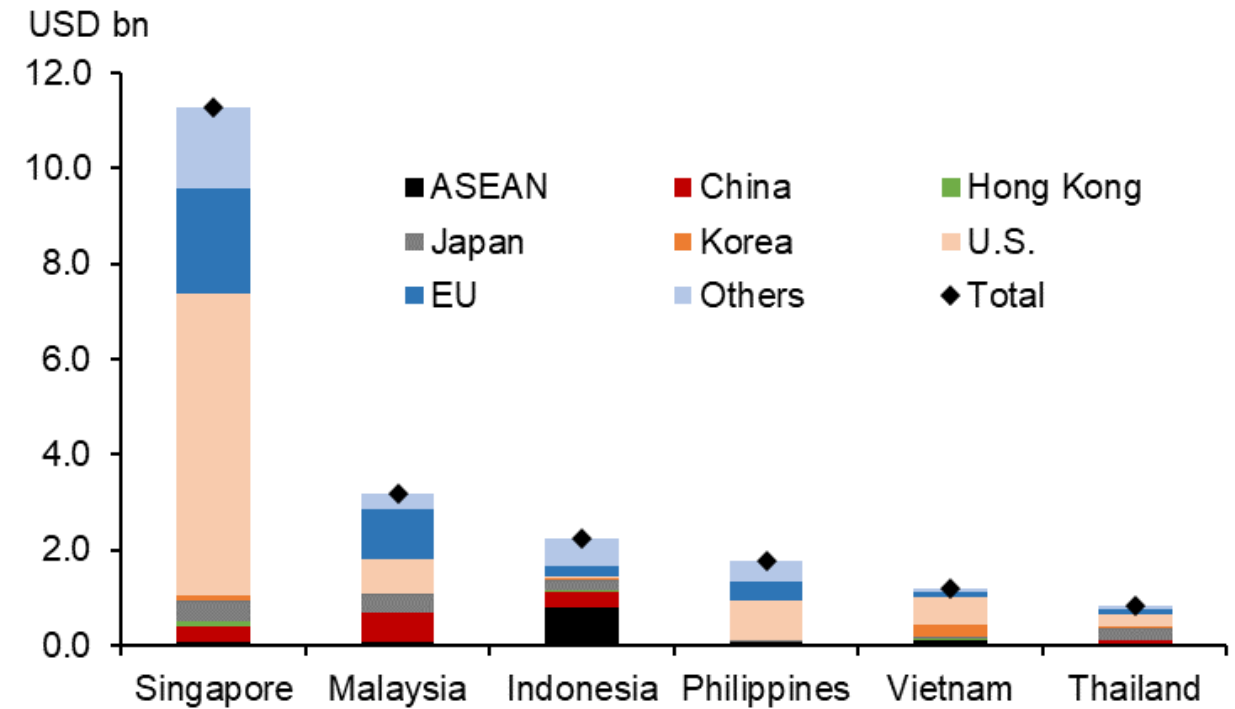
## Malaysia has attracted a more geographically diverse investor base in the “new economy” sectors, although there is scope for further growth

Greenfield FDI into “New Economy” Sectors in ASEAN-6 Economies, 2014-19

Advanced Manufacturing

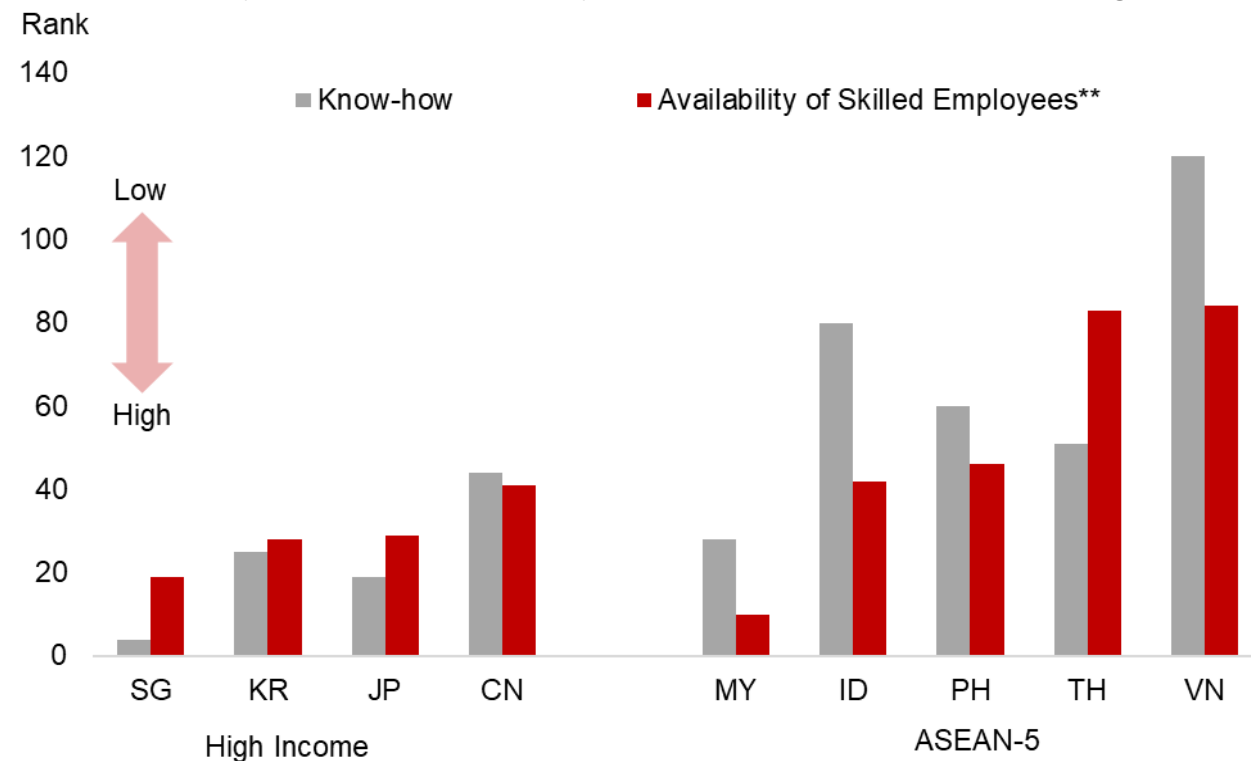


Modern Services

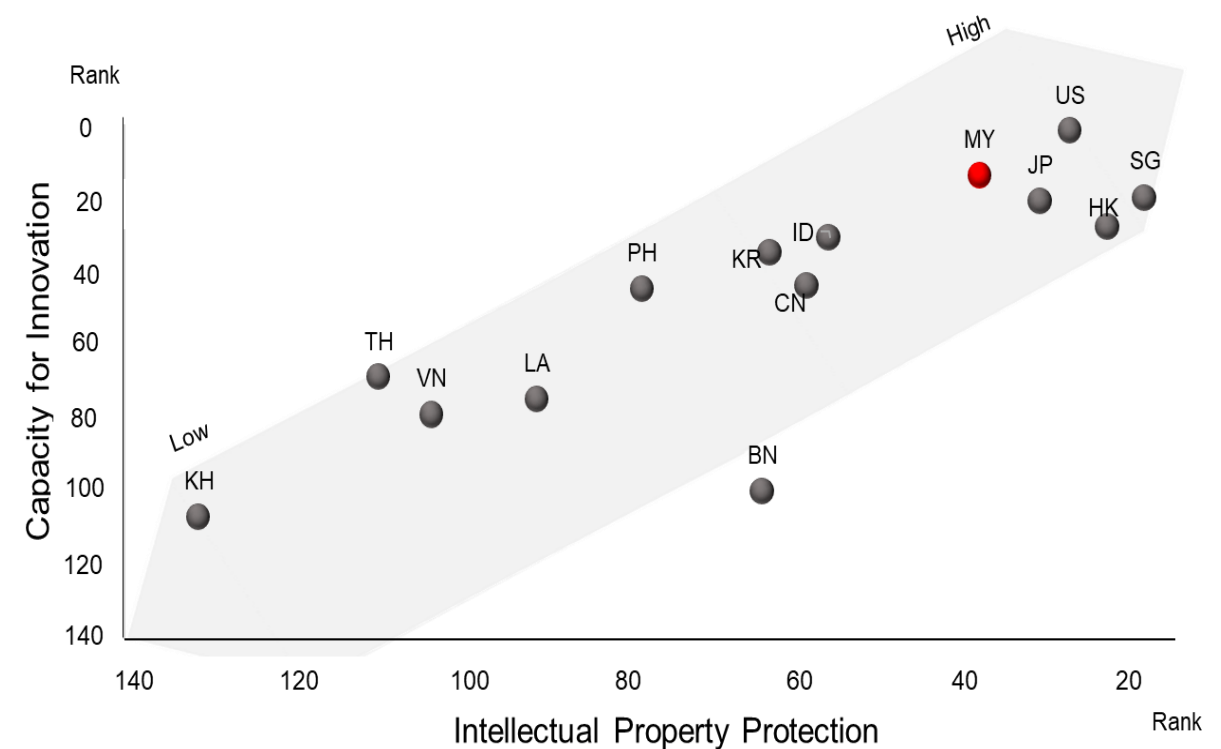


## Malaysia can leverage on its existing pool of skilled labor, as it continues to strengthen overall regulatory framework and intellectual property protection to attract more investments

Availability of Skilled Employees and Know-how Rankings, 2017



Capacity for Innovation and Intellectual Property Protection, 2017-18



Note: **\*\*Availability of skilled employees** is business leaders' perceptions of the degree to which in their country of residence companies on average are able to find the skilled employees.

**Know-how** refers to the breadth and depth of specialized skills used at work.

Source: World Economic Forum (2017).

# Thank You

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