The Global Economy Approaching a Turning Point

Challenges for developed and emerging countries

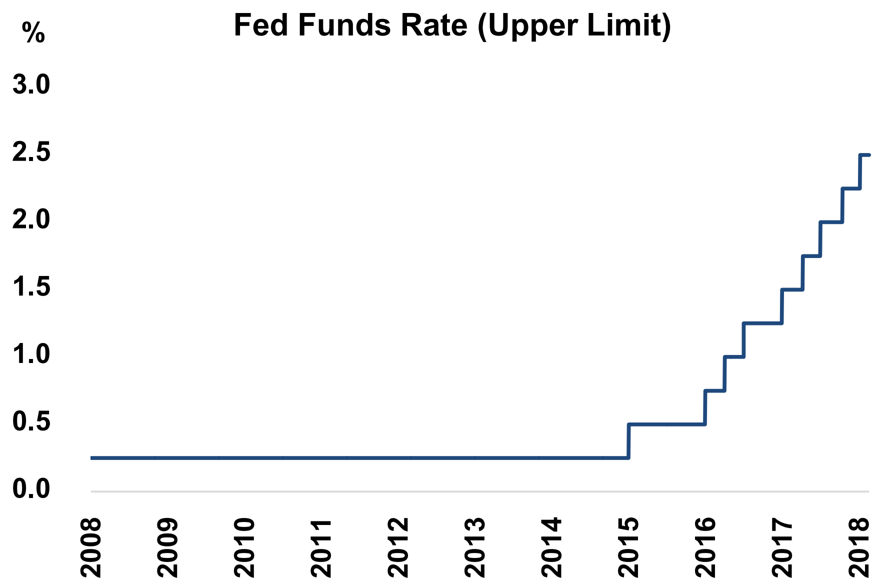
IIMA Symposium, Tokyo.

Feb. 25, 2019

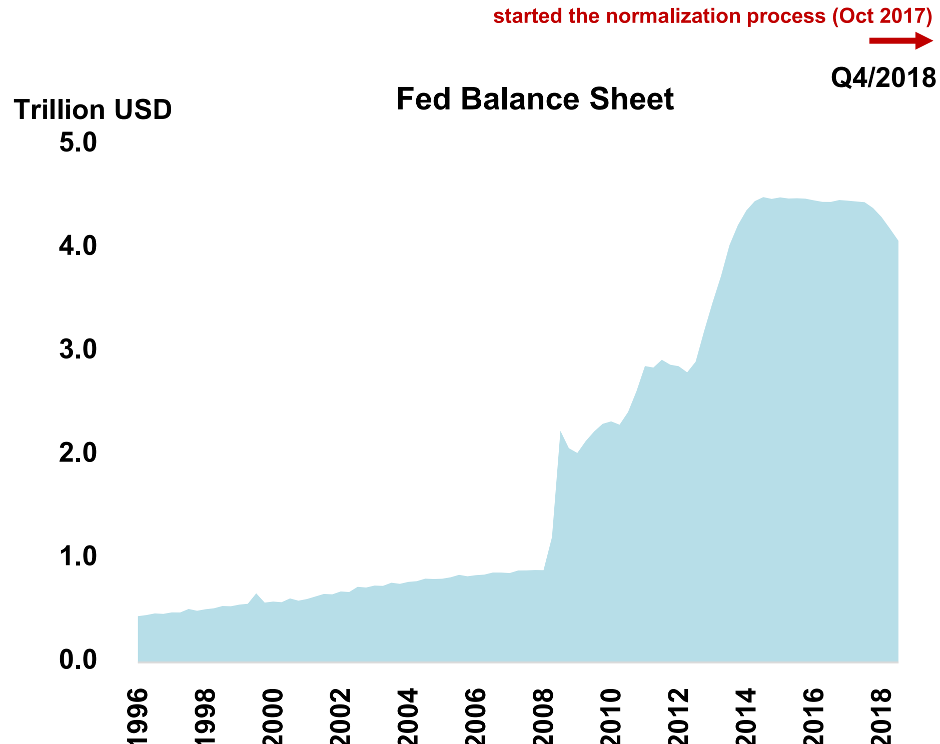
By Tarisa Watanagase

Downside risks to 2019 global growth

United States: Growth slowing slightly with tighter financial conditions and waning impacts of tax cuts



Source: Fred

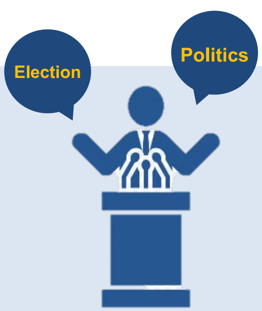


Source: Federal Reserve Banks via CEIC

Downside risks to 2019 global growth

Europe

ECB unwinding of asset purchase program



Political/fiscal problems of some member countries

Brexit

Downside risks to 2019 global growth

Other risks

High uncertainty from the Trade War

China's economic slowdown

and some pocket of risks in financial stability

Volatility in the world's financial market affecting

investment sentiment and emerging markets

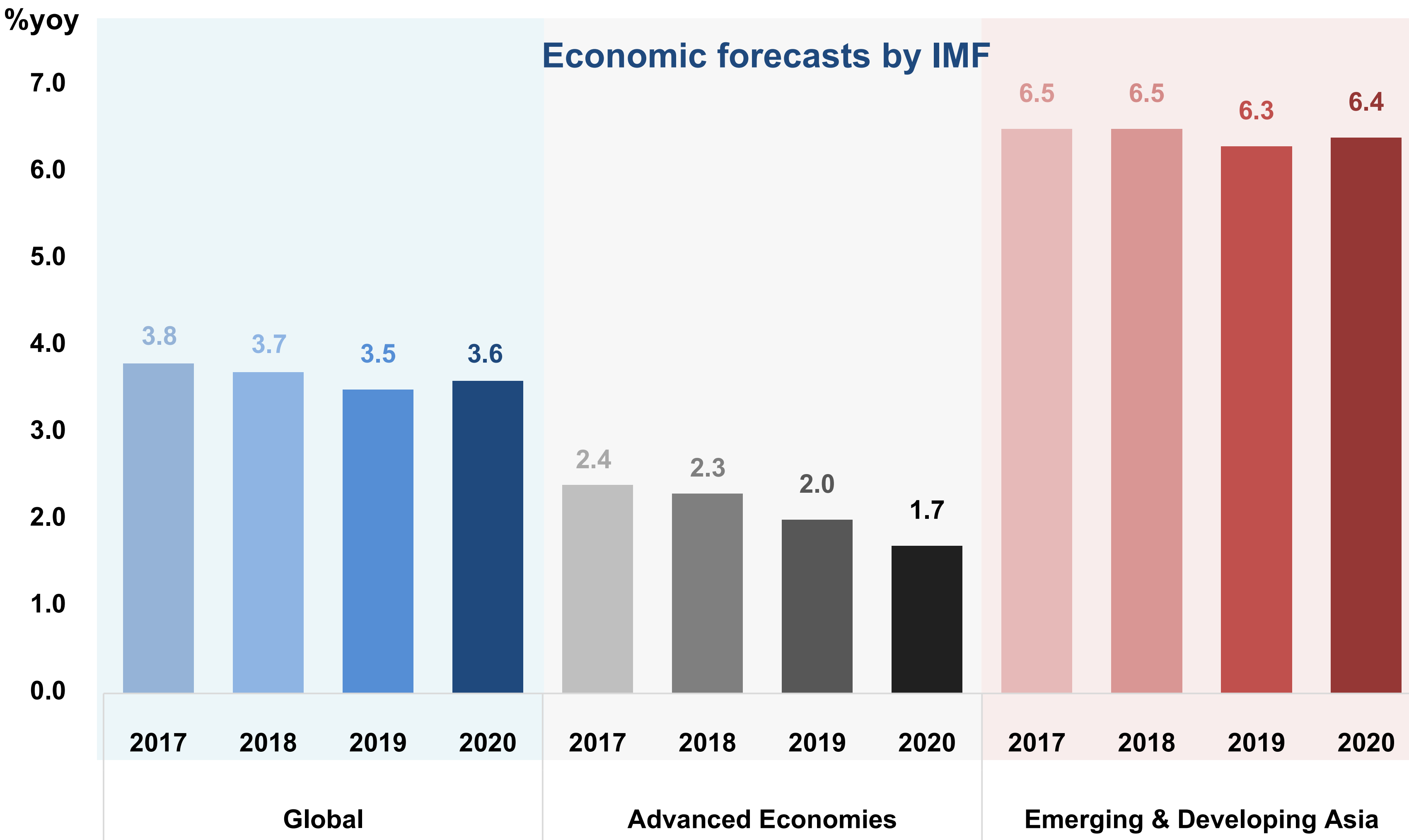
Geopolitical risks

affecting consumer and business confidence

Populist policies

especially associated with elections

Slower 2019 GDP growth expected

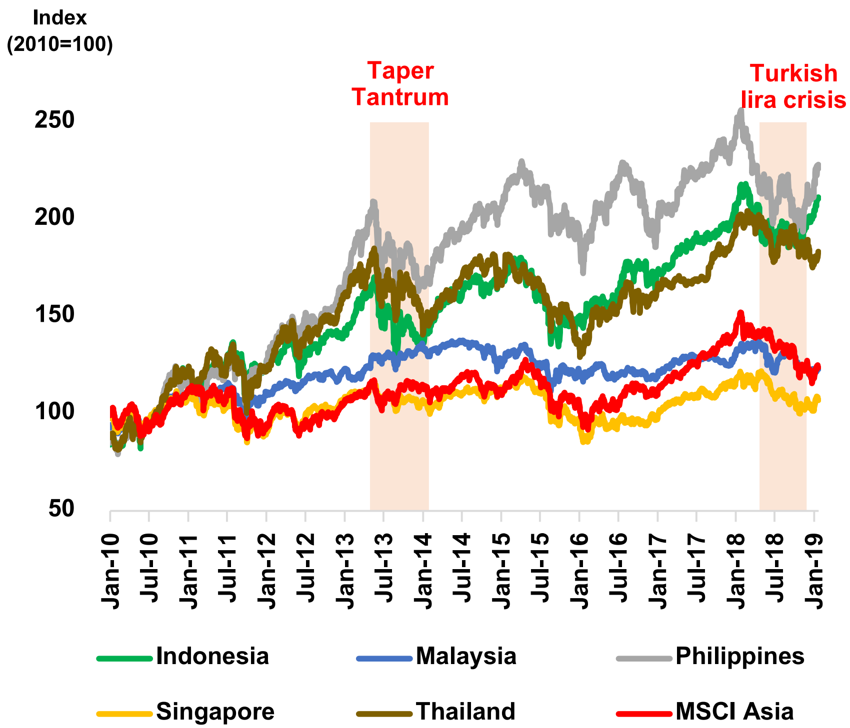


Source: WEO, Jan 2019

Challenges for ASEAN: Vulnerability to Further Capital Flow Reversals (1)

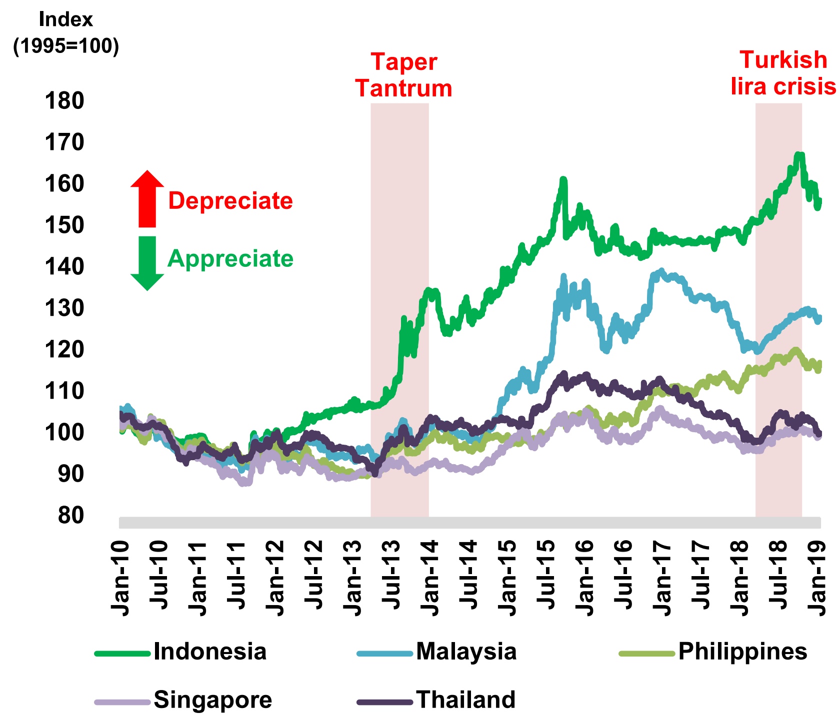
Changes in market perception of timing or pace of G3 policy changes, risks-off sentiment on EM assets could spur the risk of capital flow reversals similar to what occurred during "2013 taper tantrum" and recently "2018 Turkish lira crisis".

ASEAN stock markets



Source: Bloomberg

ASEAN currencies



Source: Bloomberg

Challenges for ASEAN: Vulnerability to Further Capital Flow Reversals (2)

IIFestimates $**3.9 trillion of EME bonds and syndicated loans due by end of 2020**, with one third denominated in foreign currencies.

External debt liabilities of countries with vulnerable external conditions and weak currencies likely to increase in local currencies undermining debt servicing ability and economic stability.

EM (ex-China)—non-bank FX denominated debt

Source: BIS, IIF; 95Q1-99Q4 figures are estimated using BIS debt and banking statistics; only includes USD, EUR and JPY debt.

Indicators of External Vulnerability

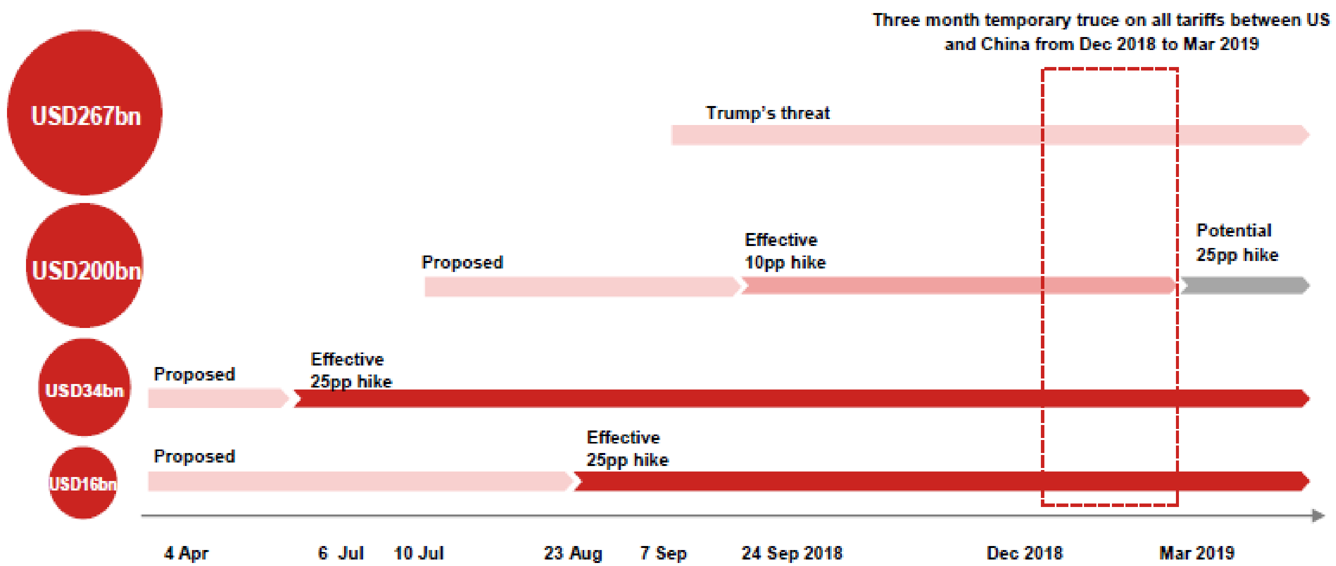
	Criteria*	TH	MY	PH	ID	SG
Liquidity Indicators (As of Dec18)						
Int'l Reserves (USD bn)		**205.6**	**101.4**	**79.2**	**120.7**	**287.7**
Import cover (end period, months)	**3 mths**	**9.9**	**5.6**	**8.7**	**7.7**	**9.3**
Reserve over short-term debt	**> 1 time**	**3.1**	**1.0**	**5.9**	**2.5**	**0.3**
Solvency Indicators (As of 3Q18)						
External Debt / GDP (%)		**31.7**	**66.1**	**23.5**	**34.5**	**420.5**
Current Account / GDP (%)		**3.4**	**1.0**	**-3.7**	**-3.4**	**20.1**

*Minimum criteria,

Source: CEIC

Challenges for ASEAN: The risk of growing trade protectionism

Implementation of US tariffs on China



Source: USTR and Nomura Global Economics estimates

Escalating trade protectionism, US-China trade tension led to much of financial volatility in ASEAN last year.

Other measures applied to all countries

Safeguard measure

Washing machine

Solar cell

Import tariffs Section 232

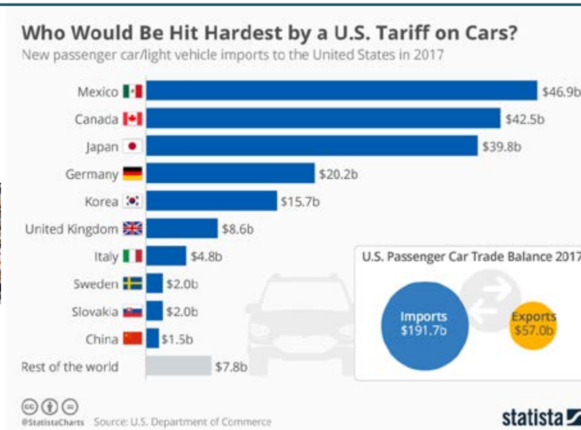
Steel

Aluminum

More measure to come

Import tariffs Section 232

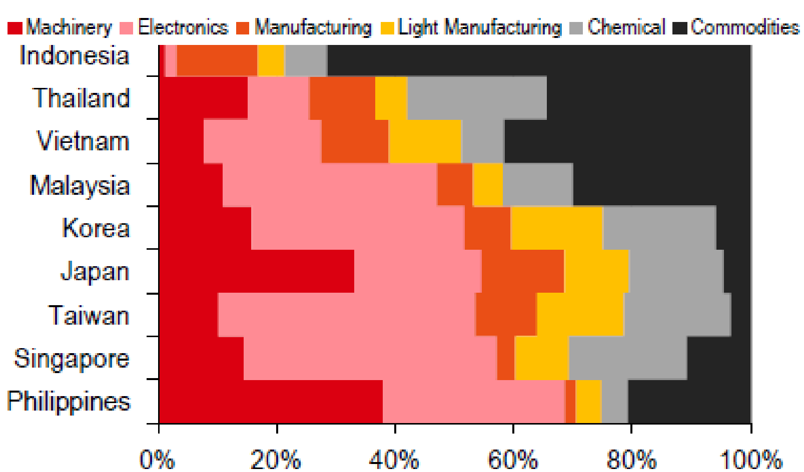
Auto & parts



Challenges for ASEAN: Impact of US-China Trade War

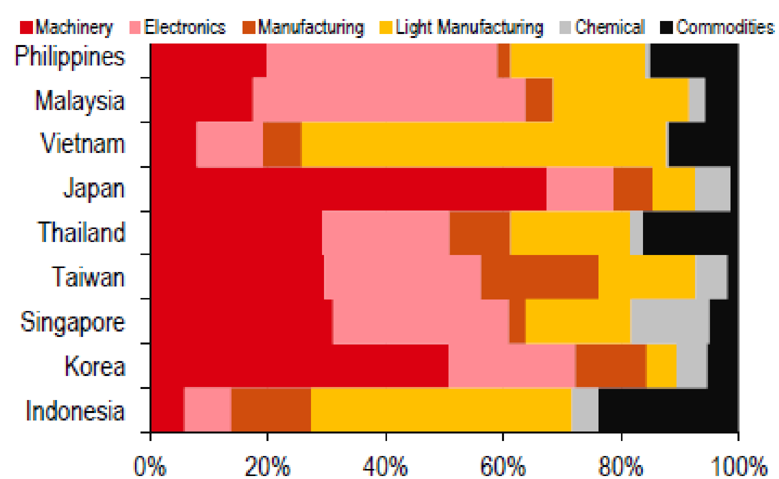
- **Supply chain effects:** Taiwan, Japan, Korea, Malaysia have high exposure to China exports, likely to face negative impacts. Indonesia's exports to China largely commodities, impacts likely limited.
- **Substitution effects:** ASEAN economies that export to US and/or could benefit
- **Income effects:** Tariffs would derail domestic and global growth and dampened demands
- **Net impacts** depend on product substitutability, non-tariff barriers and firms' behavior to adjust production capability

Product share of country's export to CN



Source: HSBC

Product share of country's export to US



Source: HSBC

ASEAN Economies Generally Resilient

ASEAN Economic Indicators

	GDP Growth (%yoy)				Inflation (%yoy, avg)				Current Account Balance (%GDP)				Public Debt (%GDP)			
	2015	2016	2017	2018	2015	2016	2017	2018	2015	2016	2017	2018	2015	2016	2017	2018
Indonesia	4.9	5.0	5.1	5.1*	6.4	3.5	3.8	3.2	-2.0	-1.8	-1.7	-2.4*	27.5	28.3	28.8	29.8*
Malaysia	5.1	4.2	5.9	4.7*	2.1	2.1	3.8	1.0*	3.0	2.4	3.0	2.9*	57.9	56.2	54.1	55.1*
Philippines	6.1	6.9	6.7	6.2	0.7	1.3	2.9	5.2	2.5	-0.4	-0.8	-1.5*	41.5	39.0	39.9	39.8*
Singapore	2.2	2.4	3.6	2.9*	-0.5	-0.5	0.6	1.0*	18.6	19.0	18.8	18.5*	100.5	106.8	111.1	112.9*
Thailand	3.0	3.3	3.9	4.6*	-0.9	0.2	0.7	1.1	8.0	11.7	11.0	9.1*	42.5	41.8	41.9	41.9*
Vietnam	6.7	6.2	6.8	7.1	0.6	2.7	3.5	3.5	-0.1	2.9	2.5	2.2*	57.4	59.9	58.5	57.8*

Source: WEO

Note: *Forecasted by WEO

ASEAN Trade Data

		Export to (%Share in 2017)							
		US	CN	ID	MY	PH	SG	TH	VT
Exporters	US		8.4	0.4	0.8	0.5	1.9	0.7	0.5
	China	19.0		1.5	1.8	1.4	2.0	1.7	3.2
	Indonesia	10.6	13.7		5.0	3.9	7.6	3.8	2.1
	Malaysia	9.5	13.5	3.7		1.8	14.3	5.4	3.0
	Philippines	14.1	11.7	1.1	2.5		5.8	4.0	1.3
	Singapore	6.5	14.5	7.5	10.6	1.9		3.9	3.3
	Thailand	11.2	12.4	3.7	4.4	2.9	3.5		4.9
	Vietnam	19.5	16.6	1.3	2.0	1.3	1.4	2.2	

Source: Trademap

		Import from (%Share in 2017)							
		US	CN	ID	MY	PH	SG	TH	VT
Importers	US		21.8	0.9	1.6	0.5	0.8	1.3	2.0
	China	8.4		1.5	3.0	1.0	1.9	2.3	2.7
	Indonesia	5.2	21.9		5.8	0.5	10.8	5.7	2.0
	Malaysia	8.3	19.6	4.5		1.1	11.1	5.7	2.7
	Philippines	8.2	18.1	6.6	3.9		5.8	6.9	2.8
	Singapore	10.6	13.8	4.6	11.9	1.8		2.2	1.0
	Thailand	6.7	19.9	3.3	5.3	1.5	3.6		2.2
	Vietnam	4.4	27.7	1.7	2.8	0.6	2.5	5.0	

Source: Trademap