



**Asia-Pacific
Economic Cooperation**

2019/SOM1/FDM/005

Agenda Item: 3.2

Regional Economic Outlook and Risks in APEC Asia

Purpose: Information

Submitted by: ADB



**Finance and Central Bank Deputies' Meeting
Santiago, Chile
7-8 March 2019**

The logo of the Asian Development Bank (ADB), consisting of the letters 'ADB' in white serif font on a dark blue square background.

ADB

Regional Economic Outlook and Risks in APEC Asia

A stylized globe composed of puzzle pieces. The globe is light blue with white grid lines. Three puzzle pieces are highlighted: two dark blue and one orange, arranged horizontally across the center of the globe. The background features concentric circles and a pattern of small dots.

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Asian Development Bank

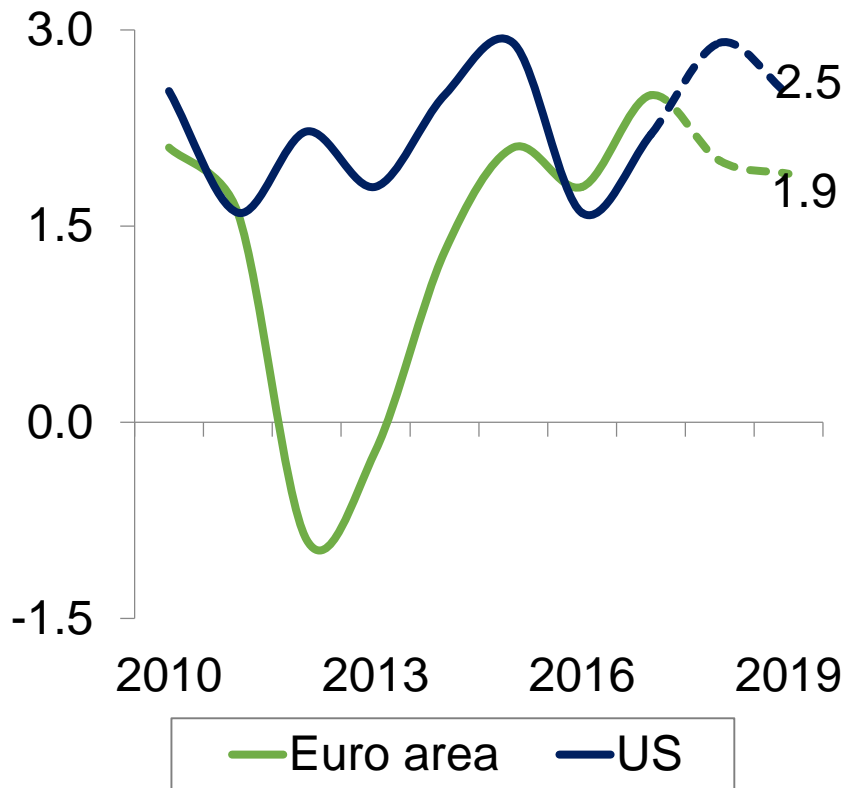
APEC Finance and Central Bank Deputies' Meeting
7 March 2019 | Santiago, Chile

Key Messages

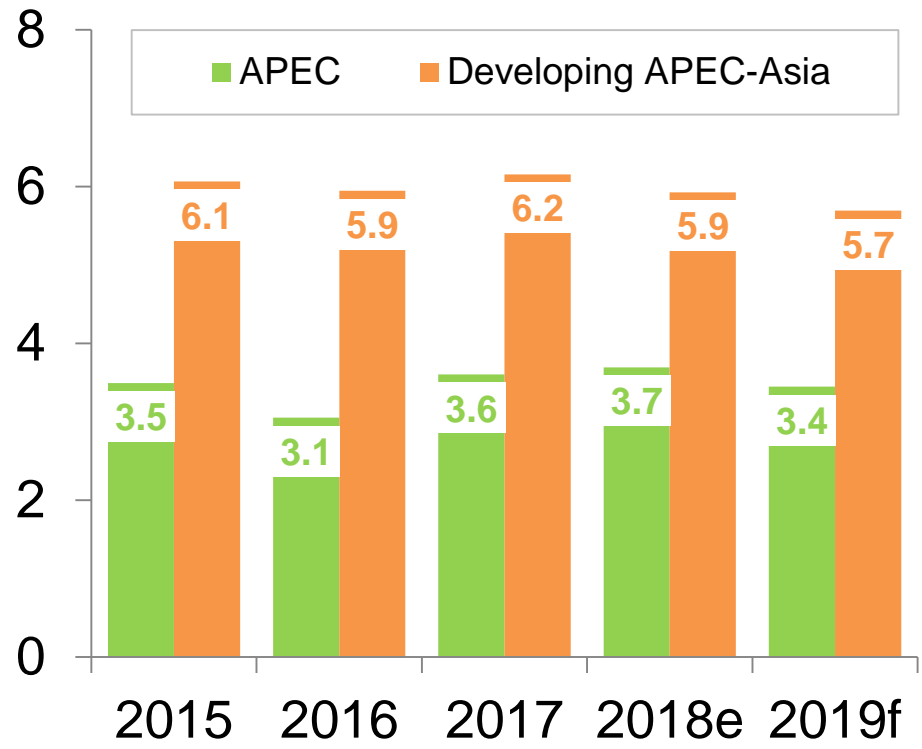
- **Developing APEC Asia projected to grow at a healthy rate of 5.9% in 2018 and 5.7% in 2019; but risks to outlook remain**
- **Largest downside risk to the outlook stems from a possible escalation of the US–PRC trade conflict, risking to disrupt international production linkages**
- **Tightening global liquidity conditions have exposed pockets of vulnerability, exerting pressure on developing APEC Asian financial market conditions**
- **Stabilization policies must be tapped when needed**

APEC-Asia economic growth holds up well...

GDP Growth (%)



GDP Growth (%)



e=estimate, f=forecast. ADB estimate and forecasts for Developing APEC-Asia, Japan, and the US; and IMF WEO for the rest.

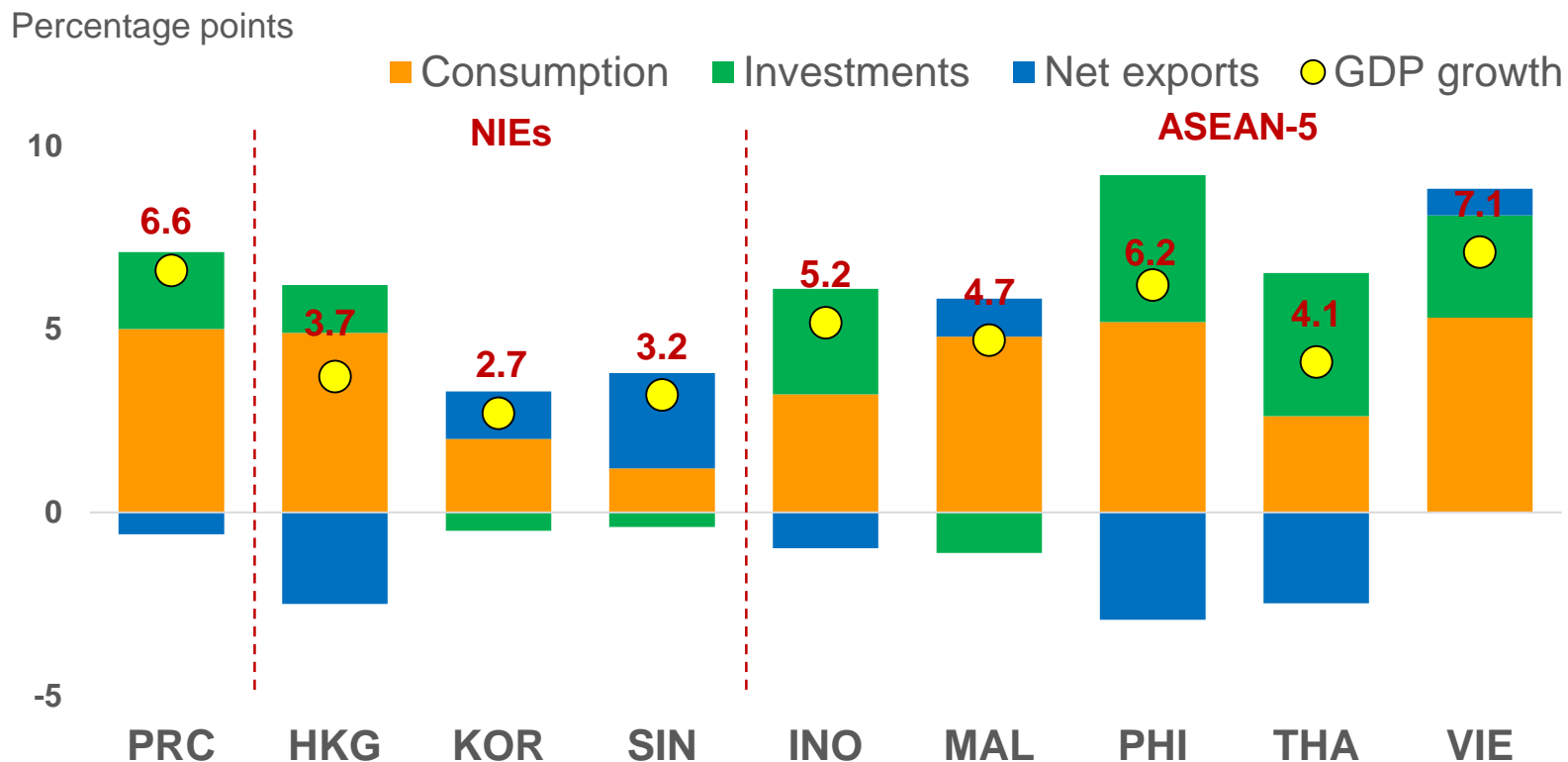
Source: *Asian Development Outlook December 2018 Supplement*, ADB; *World Economic Outlook January 2019 and WEO Database October 2018*, IMF; and national sources.



Note: Based on seasonally adjusted annualized rates.
Source: ADB. *Asian Development Outlook 2018 Supplement*. Manila.

...based on robust domestic demand

Demand-side contributions to growth, selected economies, 2018

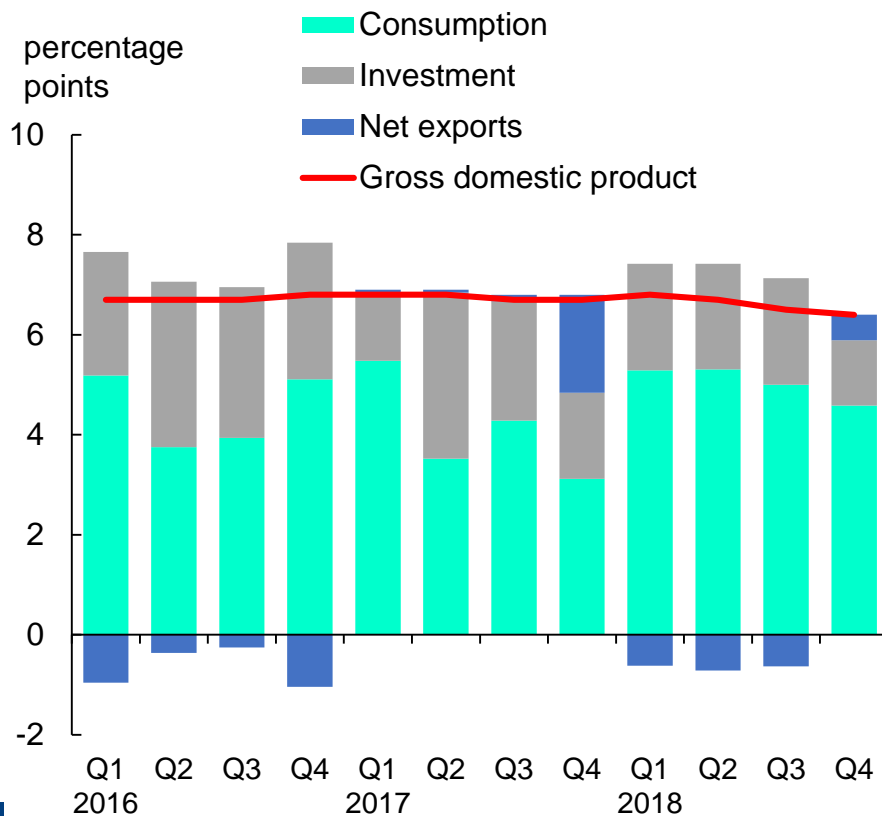


Notes: ASEAN = Association of Southeast Asian Nations; NIEs = newly industrialized economies; GDP = gross domestic product; HKG = Hong Kong, China; INO = Indonesia; KOR = Republic of Korea; MAL = Malaysia; PHI = the Philippines; PRC = People's Republic of China; SIN = Singapore; THA = Thailand. Components do not add up to total due to a statistical discrepancy. Data for HKG is as of Q3 2018.

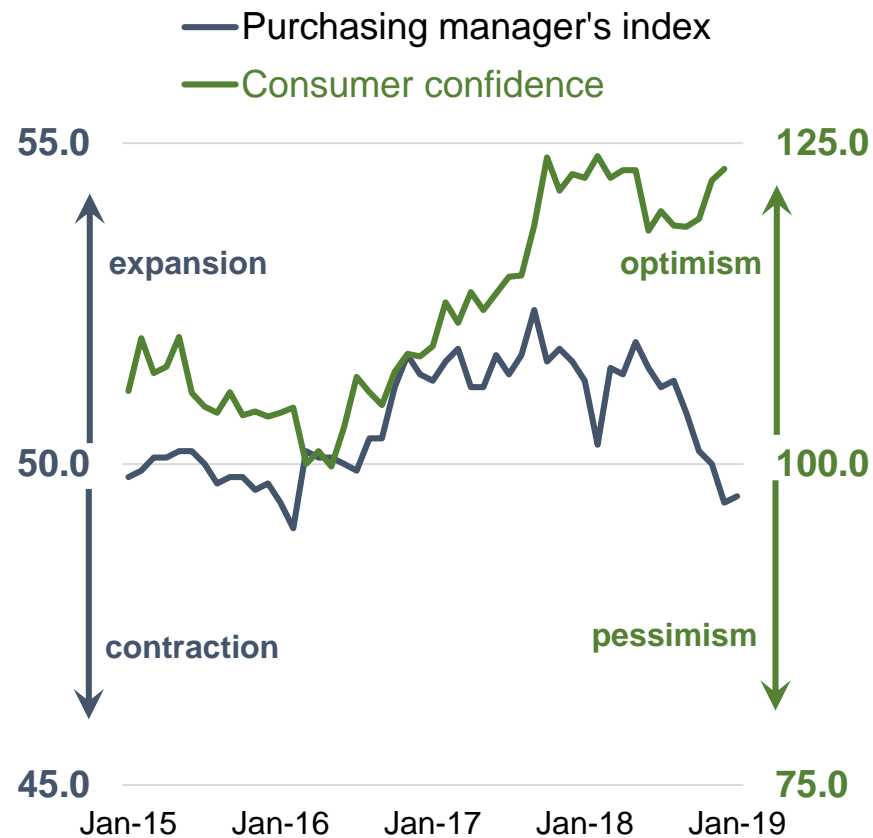
Sources: Haver Analytics and CEIC Data Company (accessed 22 February 2019); *Asian Development Outlook* database.

PRC growth on track, amidst downside risks in trade

Demand-side contributions to growth



Confidence indicators



But large variation persists across APEC economies

GDP Growth Rates (y-o-y,%)

Economy	2017	2018	2019f	Economy	2017	2018	2019f
Advance APEC				Developing APEC-Asia			
Australia	2.4	3.2 ^e	2.8	NIEs	3.3	3.0 ^e	2.6
Canada	3.5	2.1 ^e	1.9				
Japan	1.9	0.8 ^e	1.0	Brunei Darussalam	1.3	2.0 ^e	2.0
New Zealand	2.6	3.1 ^e	3.0	PRC	6.8	6.6	6.3
Russian Federation	1.6	2.3	1.6	Indonesia	5.1	5.2	5.2
US	2.2	2.9 ^e	2.5	Malaysia	5.9	4.7	4.7
Developing APEC-Americas				Papua New Guinea	3.0	0.5 ^e	3.0
Chile	1.5	4.0 ^e	3.4	Philippines	6.7	6.2	6.7
Mexico	2.1	2.0	2.1	Thailand	4.0	4.1	4.1
Peru	2.5	4.0	4.1	Viet Nam	6.8	7.1	6.8

e=estimate, f = forecast, NIEs = newly industrialized economies, PRC = People's Republic of China.

Note: Developing APEC-Asia based on ADB's definition. ADB estimates and forecasts for Developing APEC-Asia, Japan, and the US; and IMF WEO for the rest.

Source: *Asian Development Outlook December 2018 Supplement*, ADB; *World Economic Outlook January 2019 and WEO Database October 2018*, IMF; and national sources.

Some downside risks persist

- **Escalation of trade tensions**

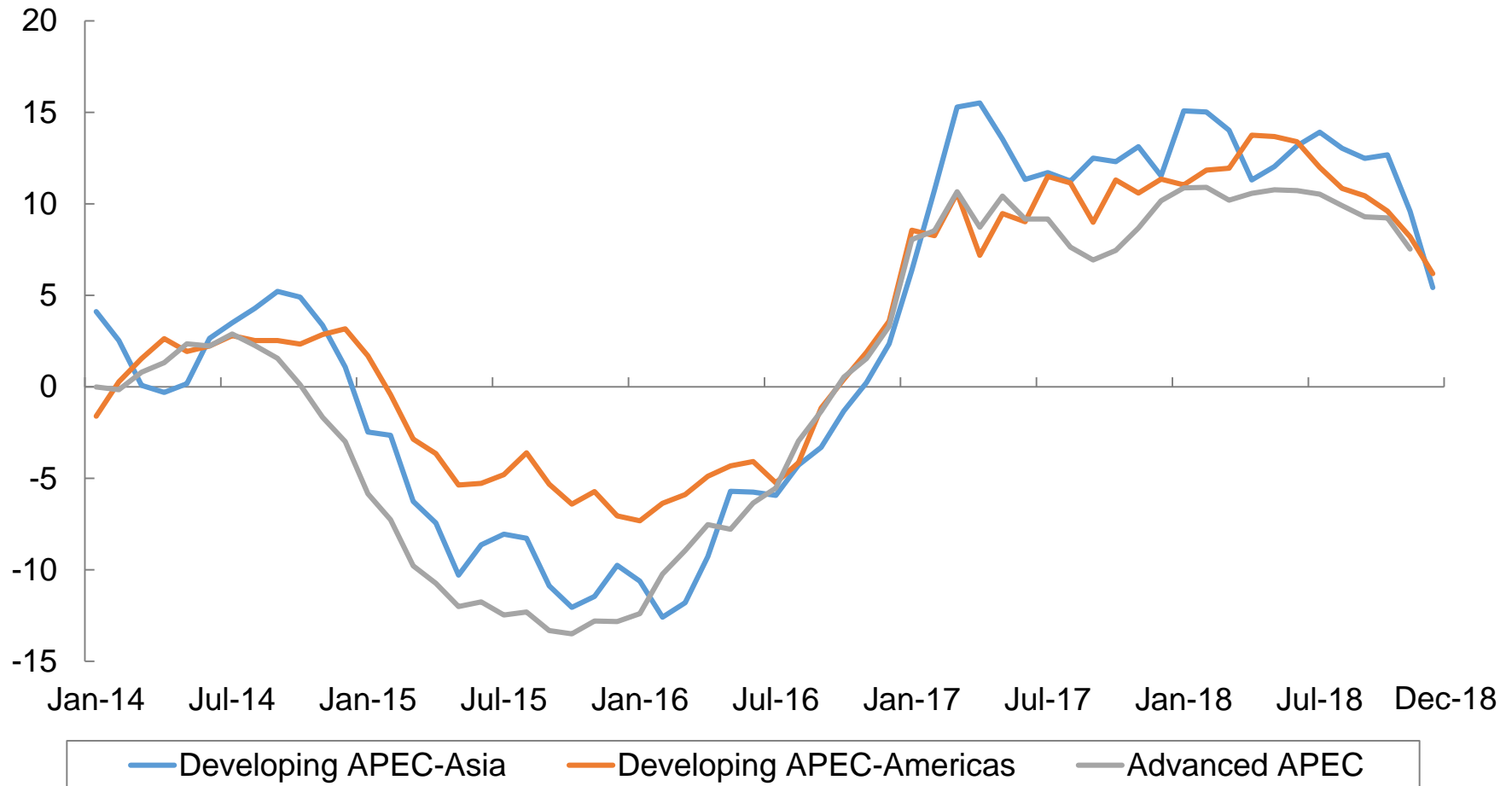
- Limited impact of US tariffs so far
- Further US tariffs or responses to them could tip the balance

- **Tightening global financial conditions**

- APEC-Asian currencies have come under pressure in 2018
- Rising sensitivity to global shocks in Asian capital markets, compounded by increased financial integration
- Risk of interest-rate induced capital flow shifts

Trade value growth tapers off in recent months

Monthly Trade Value Growth (% , y-o-y, 3-month moving average)

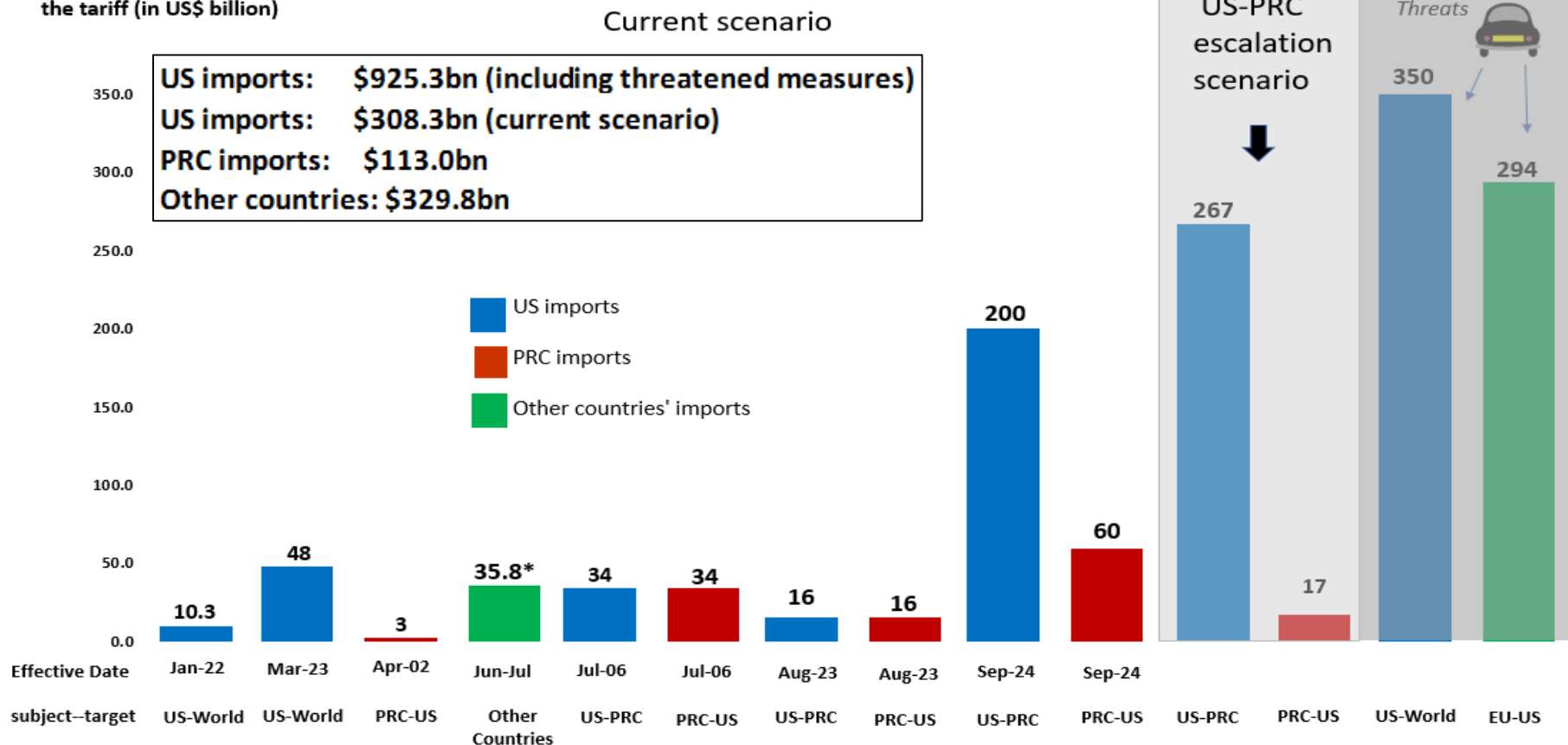


y-o-y = year-on-year. 3MA = 3-month moving average.
Note: Total trade is the sum of exports and imports.
Source: ADB calculations using data from CEIC (accessed 26 February 2019).

Trade conflict is main risk to the outlook...

Trade conflict chronology

Value of imports impacted by the tariff (in US\$ billion)



Note: **'Current scenario'** includes all tariffs implemented as of today among US, PRC and other countries. **'US-PRC escalation scenario'** includes measures in the current scenario *and* a 25% levy on all remaining bilateral US-PRC trade.

ADB * The \$35.8 billion in retaliatory tariffs against US steel and aluminum tariffs are by Mexico, EU, Canada, India, the Russian Federation, and Turkey. It excludes pending cases filed by EU (US\$ 4.1 bn) and Japan (US\$ 1.9 bn) via the WTO dispute settlement mechanism.

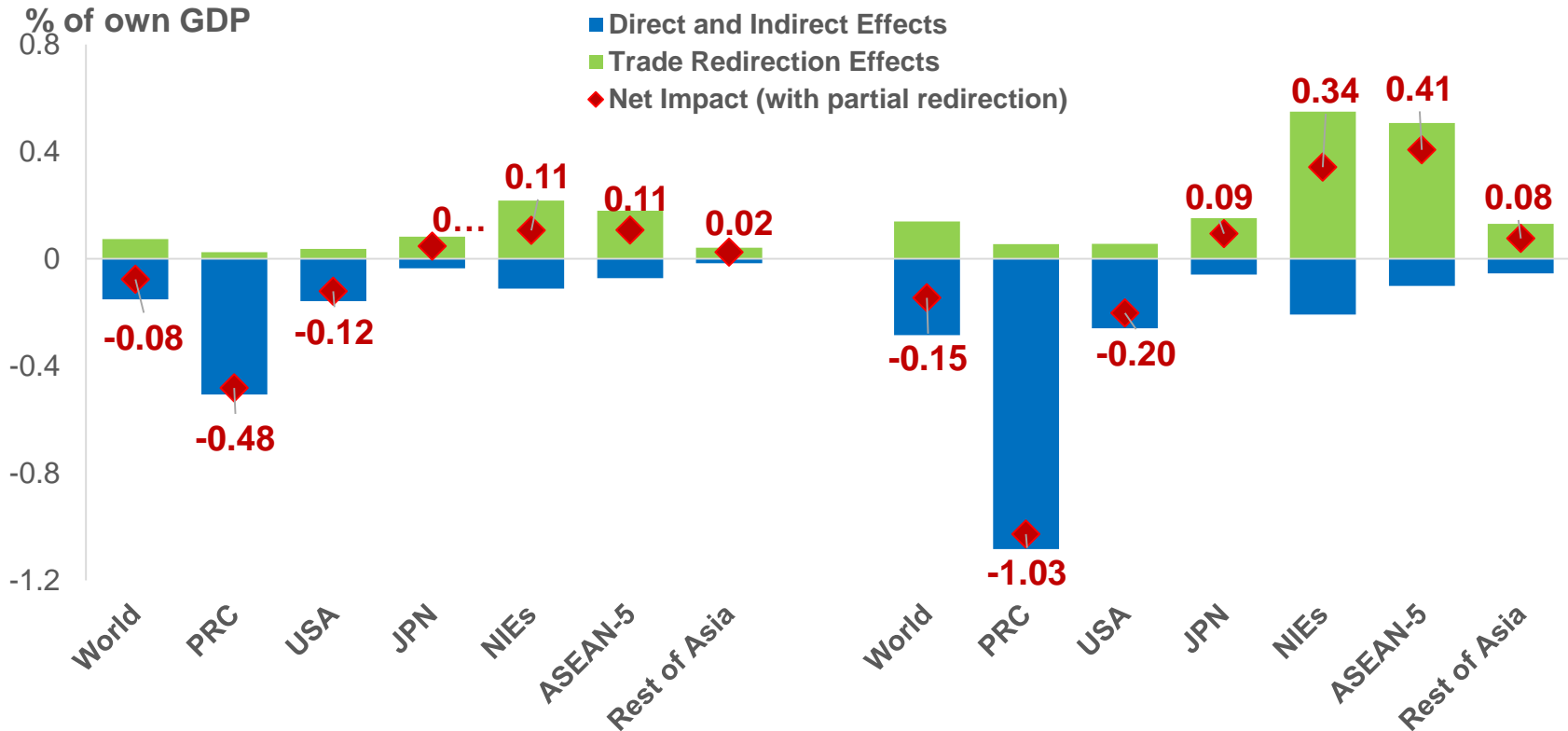
Source: ADB staff estimates based on published official information.

...with the PRC most affected

GDP impact of trade conflict by economic region

“Current” scenario

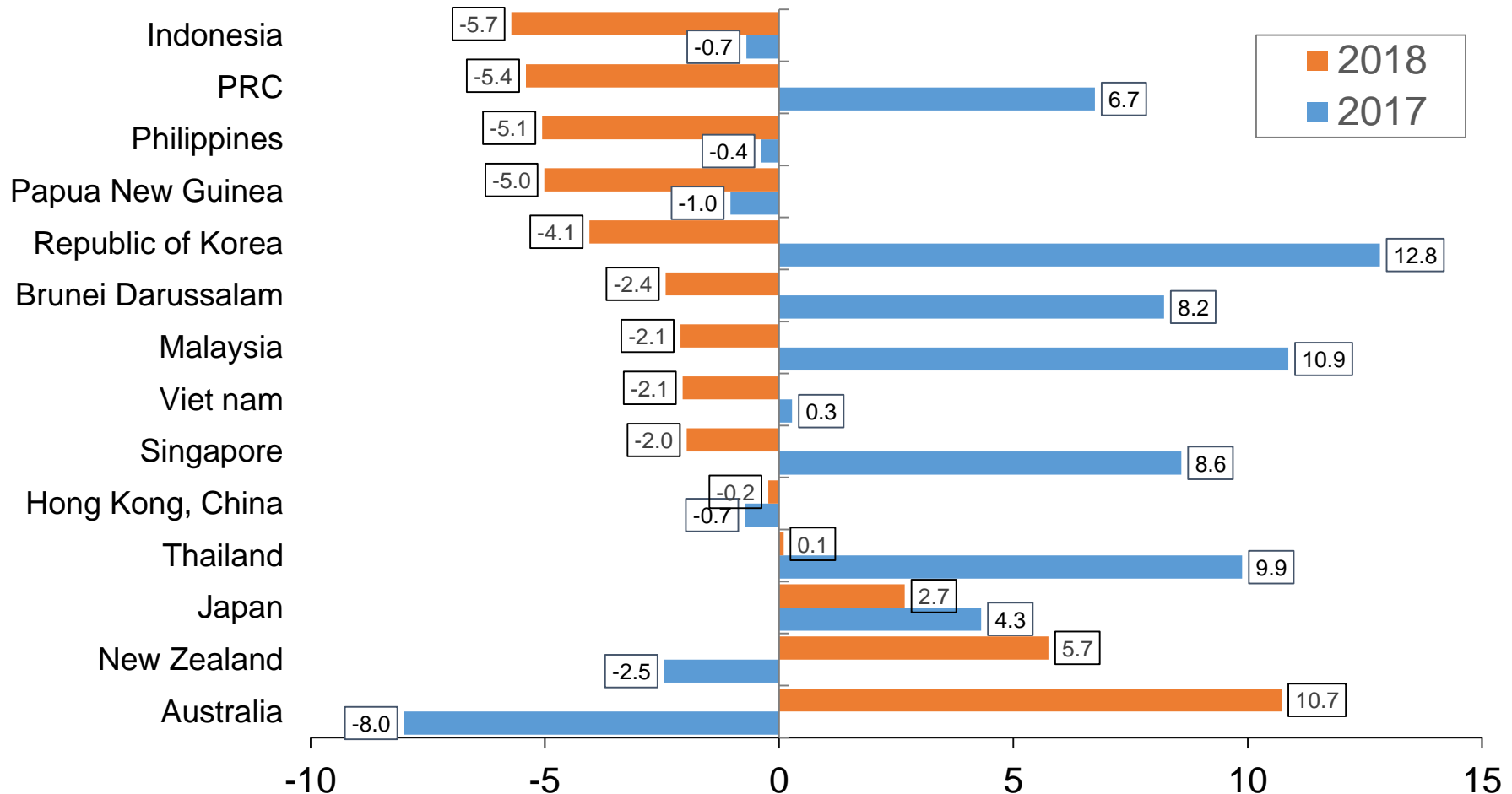
“PRC-US escalation” scenario



NIEs = newly industrialized economies of Hong Kong, China; Republic of Korea; Singapore. **ASEAN-5** = Indonesia, Malaysia, Philippines, Thailand, and Viet Nam. **Rest of Asia** = Bangladesh, Bhutan, Brunei Darussalam, Cambodia, Fiji, India, Lao People's Democratic Republic, Maldives, Mongolia, Pakistan, and Sri Lanka.
Source: ADB Staff estimates.

Developing APEC Asia's currencies have come under pressure

Changes in Nominal Exchange Rates Against USD—APEC-Asia (%)



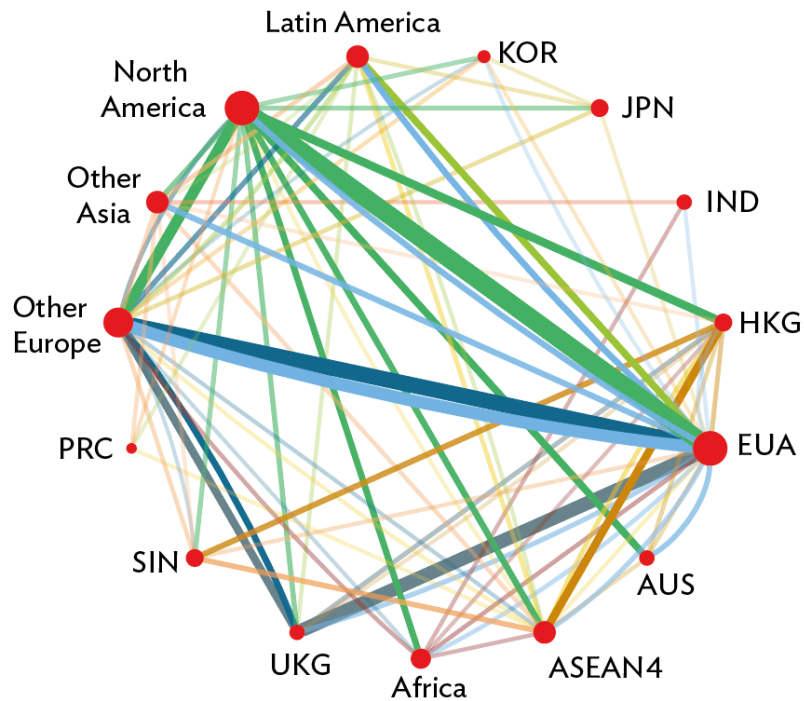
PRC = People's Republic of China.

Notes: Negative values indicate depreciation and positive values indicate appreciation.

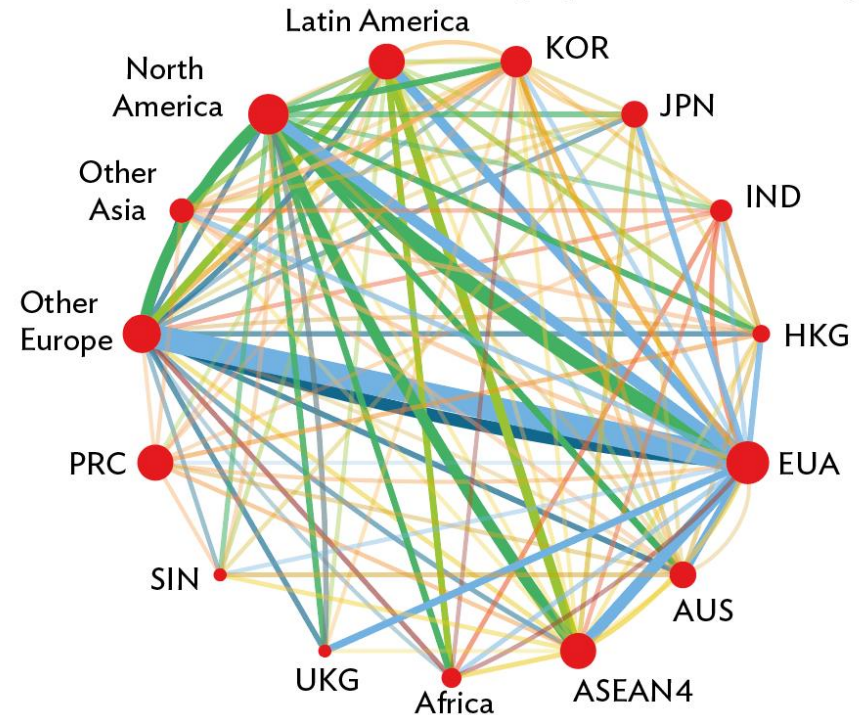
Source: ADB calculations using data from Bloomberg.

Deeper financial integration compounds susceptibility to shocks

a: Pre-Asian Financial Crisis (1 Mar 1995–1 Jul 1997)



b: Post-Global Financial Crisis (1 Apr 2010–30 Dec 2016)

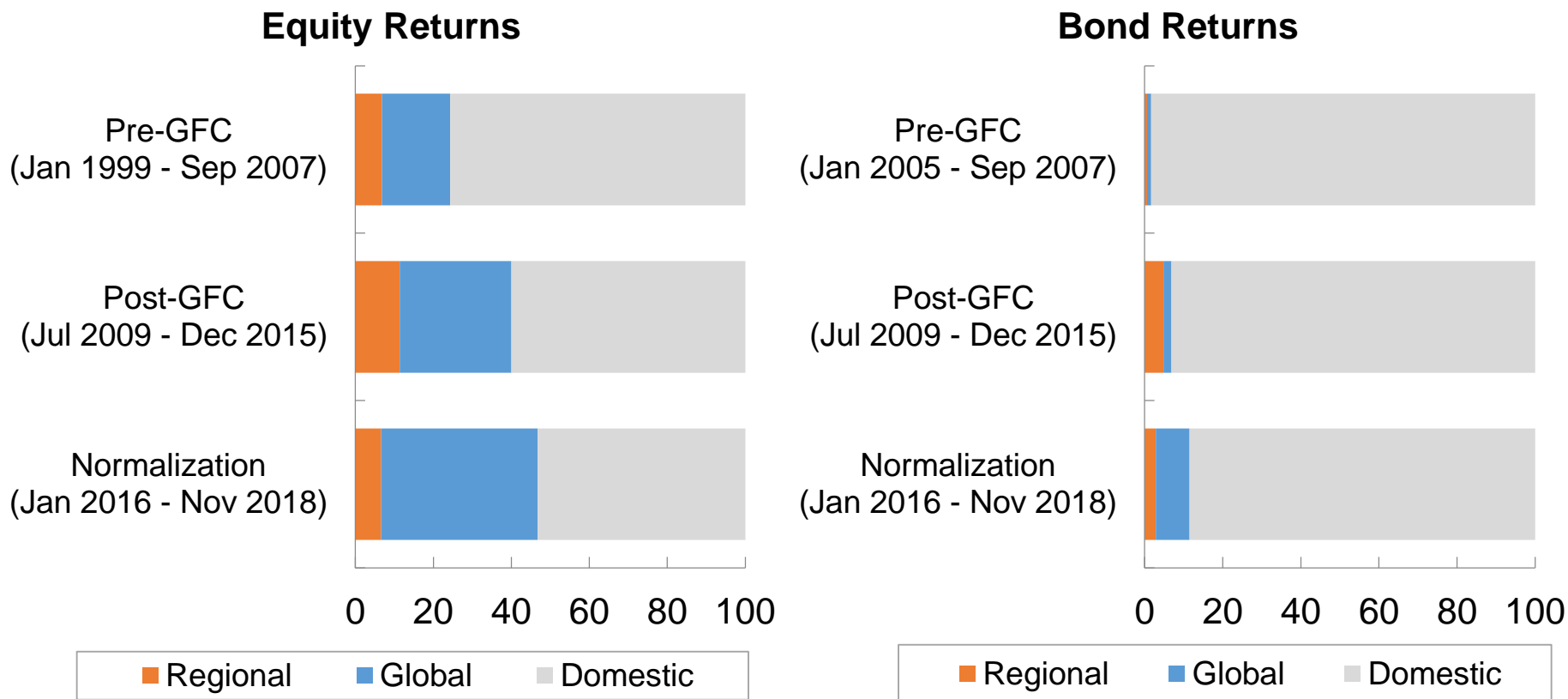


ASEAN4 = Association of Southeast Asian Nation (Indonesia, Malaysia, Philippines, and Thailand); AUS = Australia; EUA = euro area; HKG = Hong Kong, China; IND = India; JPN = Japan; KOR = Republic of Korea; PRC = People's Republic of China; SIN = Singapore; UK = United Kingdom.

Notes: The figure displays the returns-based network of 15 equity markets and regional groupings from 1 March 1995 to 30 December 2016. Edges were calculated using bivariate Granger causality tests between markets at the 5% level of significance. The thickness of the lines indicates the average relative strength of each market (or regional grouping). The size of the nodes increases with the number of outward links of each respective market (or regional grouping).

Sensitivity of equity and bond returns to global shocks rises in APEC Asia

Share of Variance in APEC-Asia Capital Market Returns Explained by Global and Regional Shocks (%)



Source: ADB calculation using data from Bloomberg; CEIC; World Bank, World Development Indicators; methodology by Lee and Park (2011).

Implement policy carefully to manage multiple risks effectively

Macroeconomic stabilization tools

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graph TD; A[Macroeconomic stabilization tools] --> B[Fiscal policy, Monetary policy, Exchange rate regime]; A --> C[Capital flow management, Macro-prudential policy]; A --> D[Appropriate mix of policies]
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- **Fiscal policy**
- **Monetary policy**
- **Exchange rate regime**

- **Capital flow management**
- **Macro-prudential policy**

- **Appropriate mix of policies**

Key Messages

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