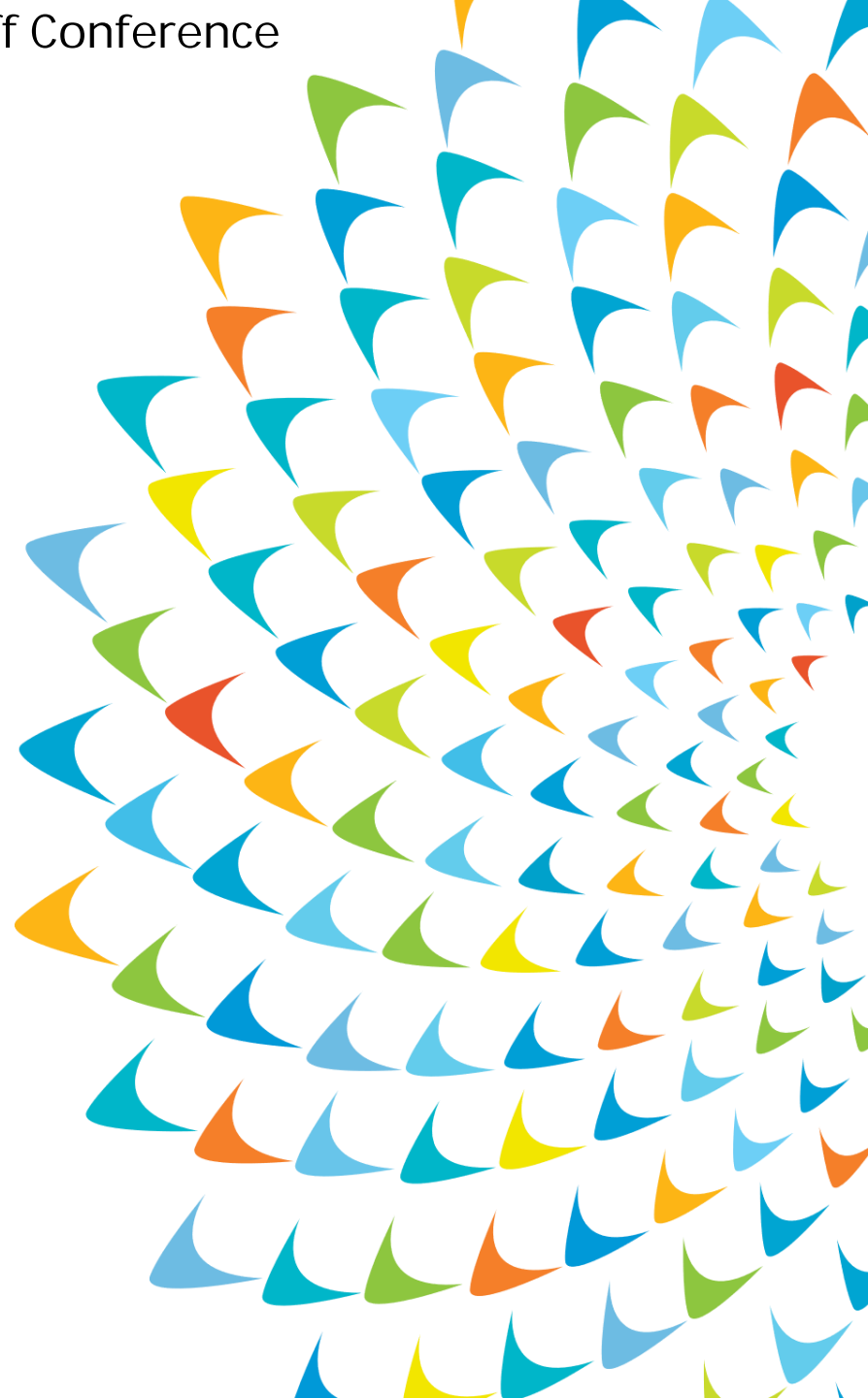ADB

# Asian Economic Outlook

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# Key Messages

- **Developing Asia's growth to moderate to 5.7% in 2019 and 5.6% in 2020 amid weaker global demand and trade tensions**

- **PRC moderation partly reflects efforts to control financial risks;
India set to rebound as consumption strengthens**

- **Inflation to remain subdued at 2.5% in 2019 and 2020**

- **The primary risk still centers on the trade conflict, with uncertainty heightened by protracted negotiations**

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# Developing Asia's more open sub-regions will see more of a slowdown in 2019

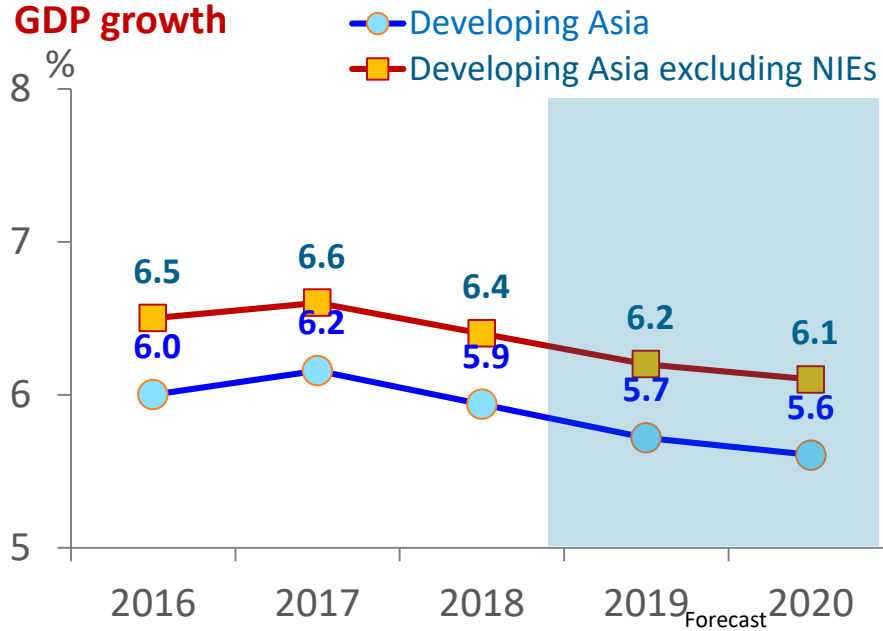| | 2018 | 2019 | 2020 | | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|
| **East Asia** | 6.0 | 5.7 ↓ | 5.5 ↓ | **South Asia** | 6.7 | 6.8 ↑ | 6.9 ↑ |
| Hong Kong, China | 3.0 | 2.5 ↓ | 2.5 | Bangladesh | 7.9 | 8.0 ↑ | 8.0 |
| People's Republic of China | 6.6 | 6.3 ↓ | 6.1 ↓ | India | 7.0 | 7.2 ↑ | 7.3 ↑ |
| Republic of Korea | 2.7 | 2.5 ↓ | 2.5 | Pakistan | 5.2 | 3.9 ↓ | 3.6 ↓ |
| Taipei,China | 2.6 | 2.2 ↓ | 2.0 ↓ | | | | |
| | | | | **Central Asia** | 4.4 | 4.2 ↓ | 4.2 |
| **Southeast Asia** | 5.1 | 4.9 ↓ | 5.0 ↑ | Azerbaijan | 1.4 | 2.5 ↑ | 2.7 ↑ |
| Indonesia | 5.2 | 5.2 | 5.3 ↑ | Kazakhstan | 4.1 | 3.5 ↓ | 3.3 ↓ |
| Malaysia | 4.7 | 4.5 ↓ | 4.7 ↑ | | | | |
| Philippines | 6.2 | 6.4 ↑ | 6.4 | **The Pacific** | 0.9 | 3.5 ↑ | 3.2 ↓ |
| Singapore | 3.2 | 2.6 ↓ | 2.6 | Fiji | 3.0 | 3.2 ↑ | 3.5 ↑ |
| Thailand | 4.1 | 3.9 ↓ | 3.7 ↓ | Papua New Guinea | 0.2 | 3.7 ↑ | 3.1 ↓ |
| Viet Nam | 7.1 | 6.8 ↓ | 6.7 ↓ | | | | |
| **Developing Asia** | 5.9 | 5.7 ↓ | 5.6 ↓ | **Excluding NIEs** | 6.4 | 6.2 ↓ | 6.1 ↓ |

Note: Red arrow= lower than the previous year. Green arrow = higher than the previous year. No sign = no change.
Source: Asian Development Outlook 2019 database.

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# Developing Asia's growth is softening, as prospects in advanced economies dim

**GDP growth**

- ○ Developing Asia
- ☐ Developing Asia excluding NIEs

%

Chart values:

| Year | Developing Asia excluding NIEs | Developing Asia |
|------|-------------------------------|-----------------|
| 2016 | 6.5 | 6.0 |
| 2017 | 6.6 | 6.2 |
| 2018 | 6.4 | 5.9 |
| 2019 | 6.2 | 5.7 |
| 2020 | 6.1 | 5.6 |

(2019 and 2020 are Forecast)

| GDP growth (%) | 2017 Actual | 2018 Actual | 2019 ADO forecast | 2020 ADO forecast |
|---|---|---|---|---|
| **Major industrial economies**[a] | **2.3** | **2.2** | **1.9** | **1.6** |
| United States | 2.2 | 2.9 | 2.4 | 1.9 |
| Euro area | 2.5 | 1.8 | 1.5 | 1.5 |
| Japan | 1.9 | 0.8 | 0.8 | 0.6 |

NIEs = newly industrialized economies of Hong Kong, China; Republic of Korea; Singapore; and Taipei,China

Source: *Asian Development Outlook 2019* database.

[a] Average growth rates are weighed by gross national income, Atlas method.

Sources: US Department of Commerce, Bureau of Economic Analysis, http://www.bea.gov; Eurostat, http://epp.eurostat.ec.europa.eu; Economic and Social Research Institute of Japan, http://www.esri.cao.go.jp; Consensus Forecasts; Bloomberg; CEIC Data Company; Haver Analytics; ADB estimates.

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# PRC moderation reflects both structural factors and policy tightening
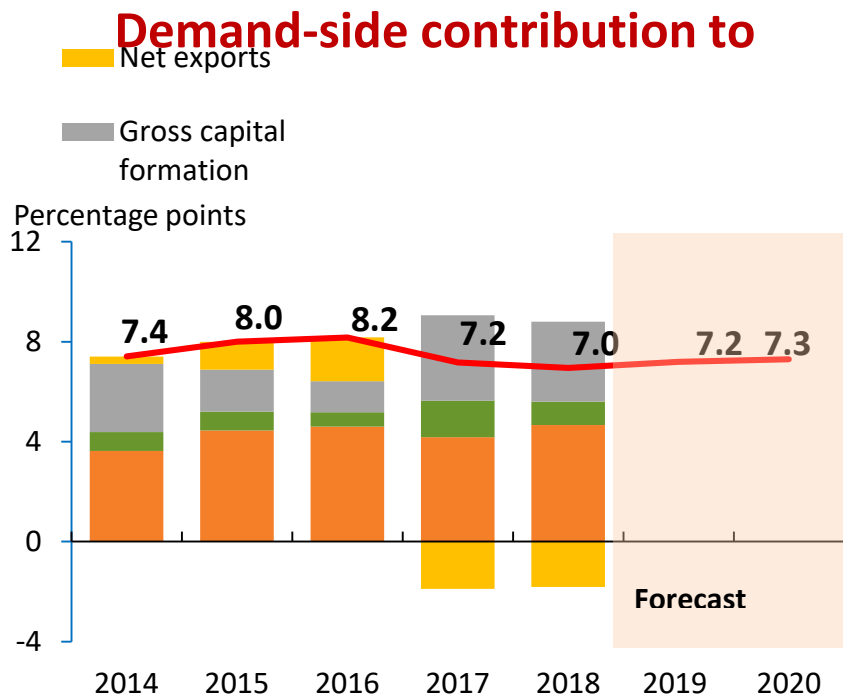
## Supply-side contribution to growth

Legend:
- Services
- Industry

Percentage points

Bar chart values: 9.0, 7.3, 6.9, 6.7, 6.8, 6.6, 6.3, 6.1

Years: 201..., 2014, 2015, 2016, 2017, 2018, 2019, 2020

Forecast
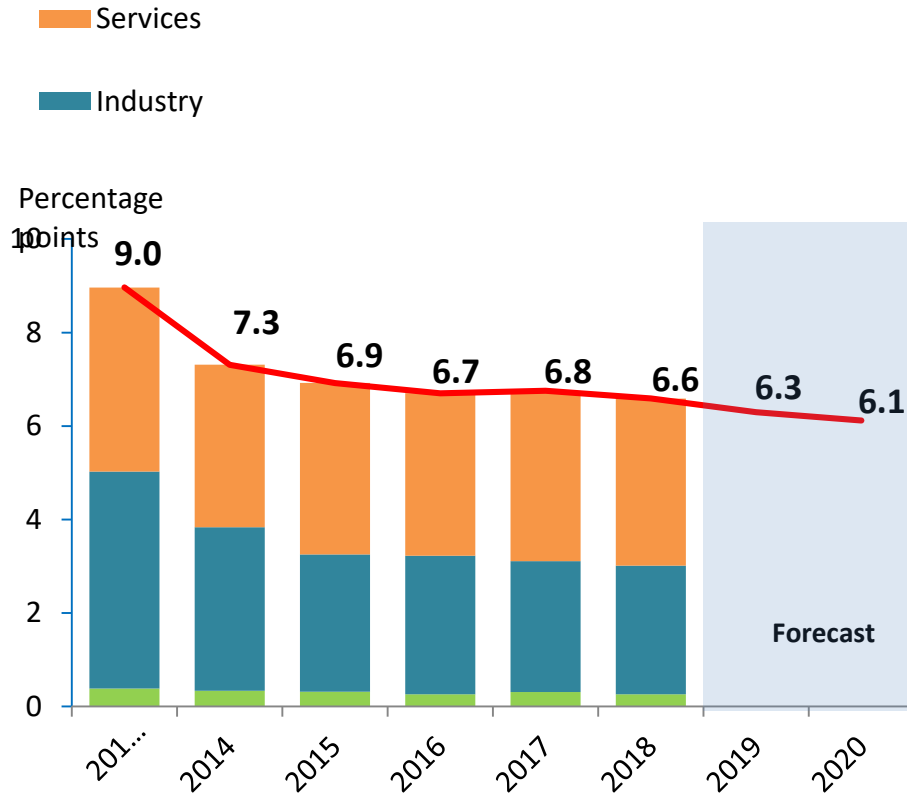
Source: National Bureau of Statistics.

## Growth of broad money, total social financing, bank loans, and shadow banking

Legend:
- Broad money (M2)
- Total social financing
- Bank loans
- Shadow banking

% year on year

Y-axis: 21, 14, 7, 0, -7, -14

X-axis: Jan 2016, Jul, Jan 2017, Jul, Jan 2018, Jul, Jan 2019
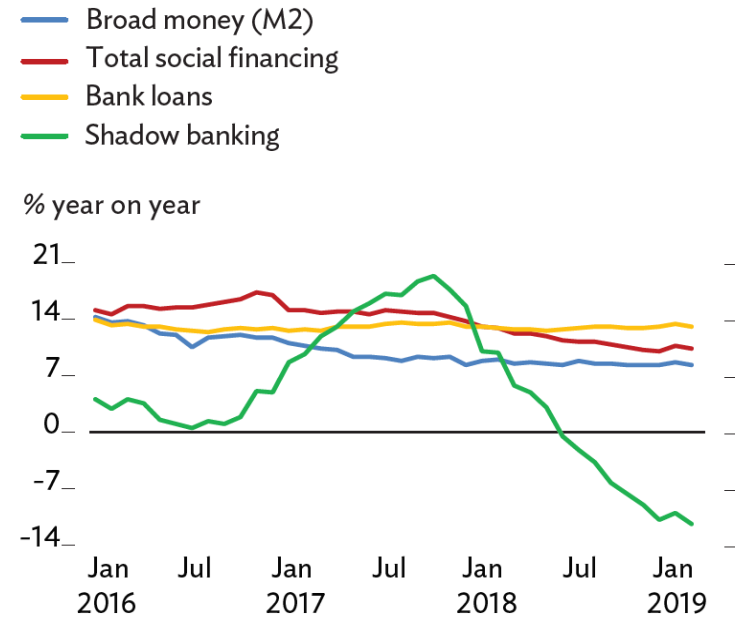
Sources: People's Bank of China; ADB estimates.

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# In India, domestic demand remains strong and will be supported by policy easing going forward

**Demand-side contribution to**

■ Net exports

■ Gross capital formation

**Purchasing manager's index, Manufacturing**



Years are in fiscal years which cover the period 1 April to 30 March..
Source: *Asian Development Outlook database*.
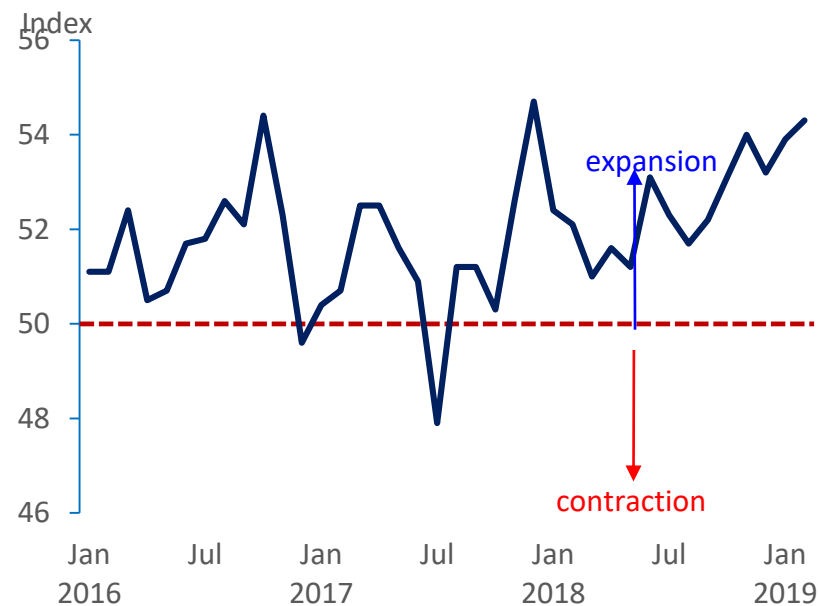
Source: Bloomberg (accessed 6 March 2019).
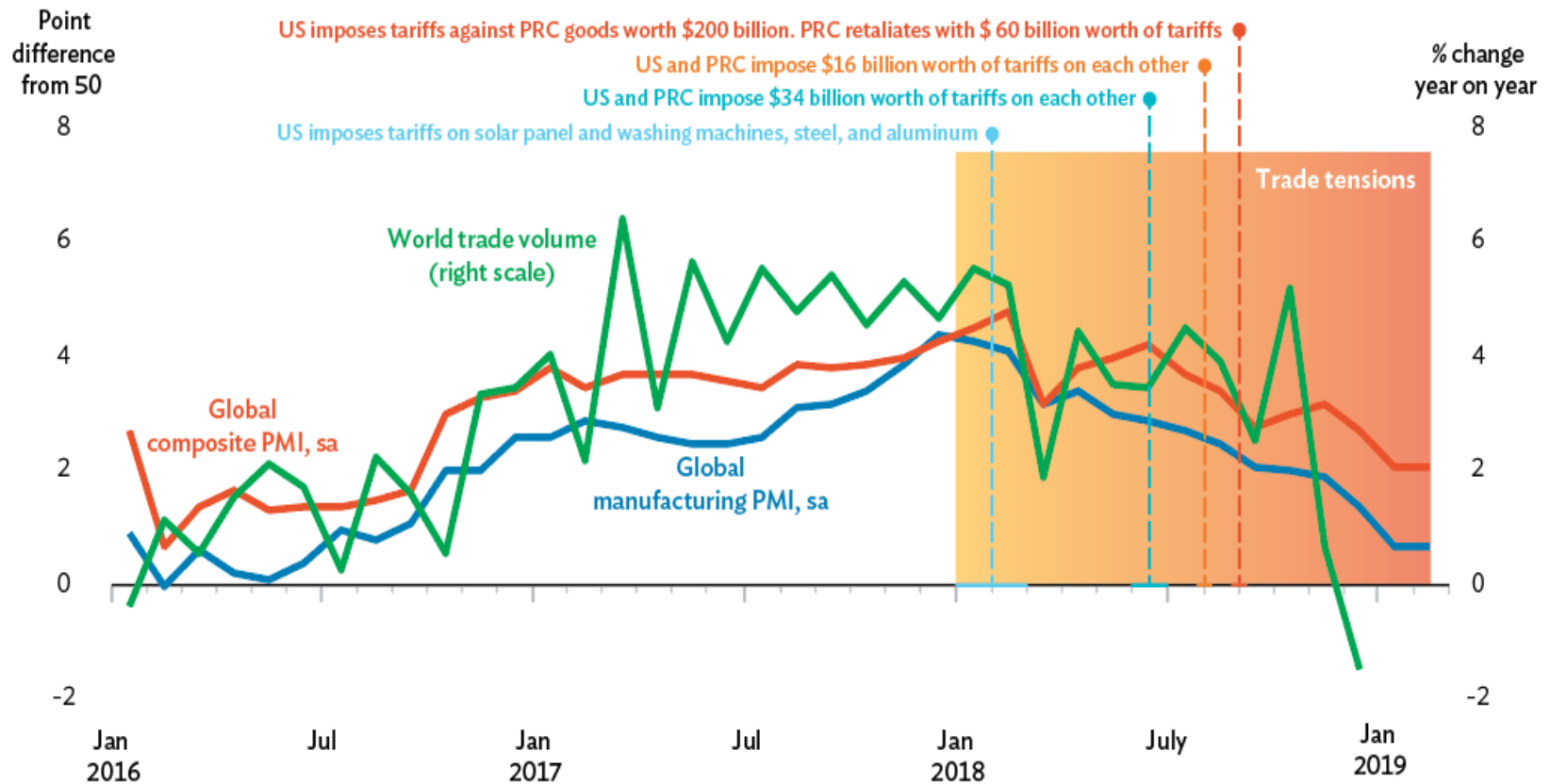
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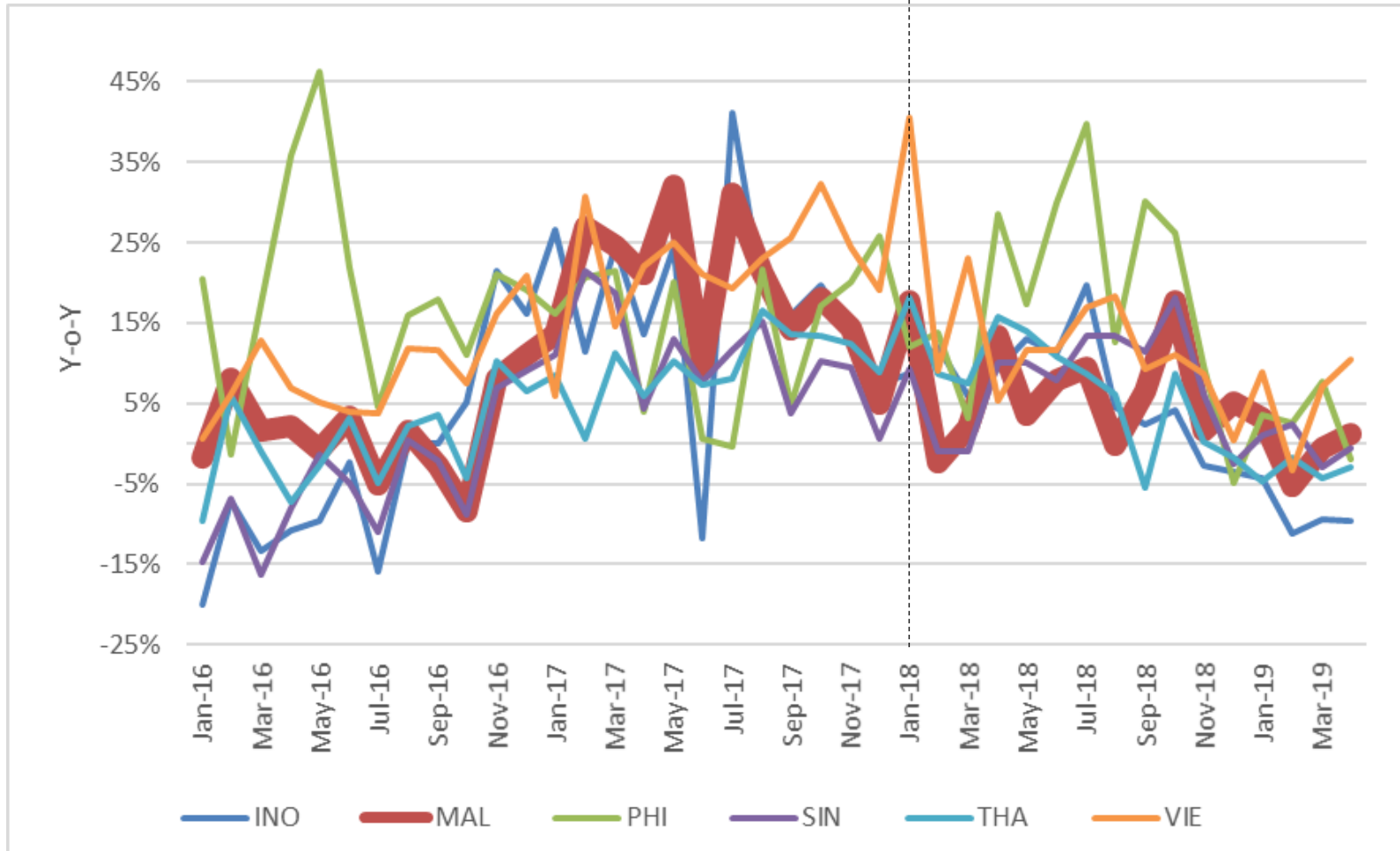# Global trade and activity slowed and trade tensions escalated…



PMI = purchasing managers' index, PRC = People's Republic of China, sa = seasonally adjusted, US = United States.
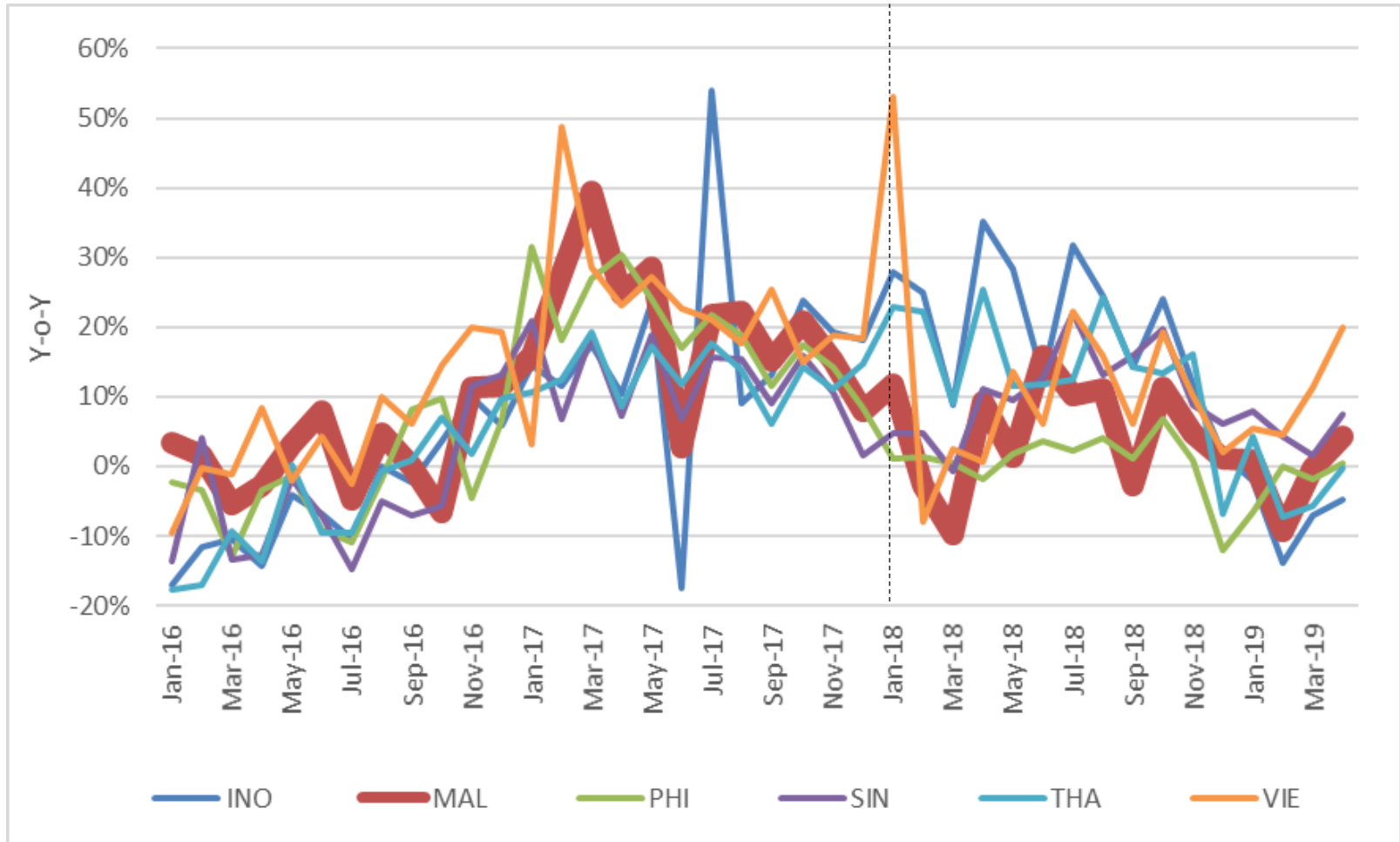Sources: Haver Analytics; CEIC Data Company.

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# …which weighed on the region's exports,



Notes: INO = Indonesia, MAL = Malaysia, PHI = Philippines, SIN = Singapore, THA = Thailand, VIE = Viet Nam
Source: CEIC Data Company.
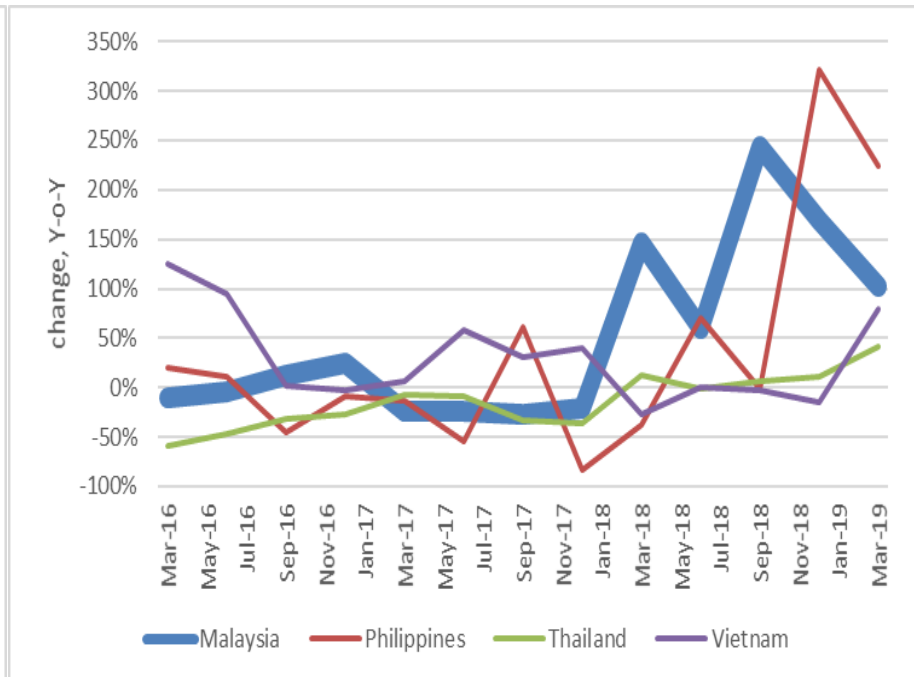
# and imports



Notes: INO = Indonesia, MAL = Malaysia, PHI = Philippines, SIN = Singapore, THA = Thailand, VIE = Viet Nam
Source: CEIC Data Company.

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# FDI showing signs of picking up
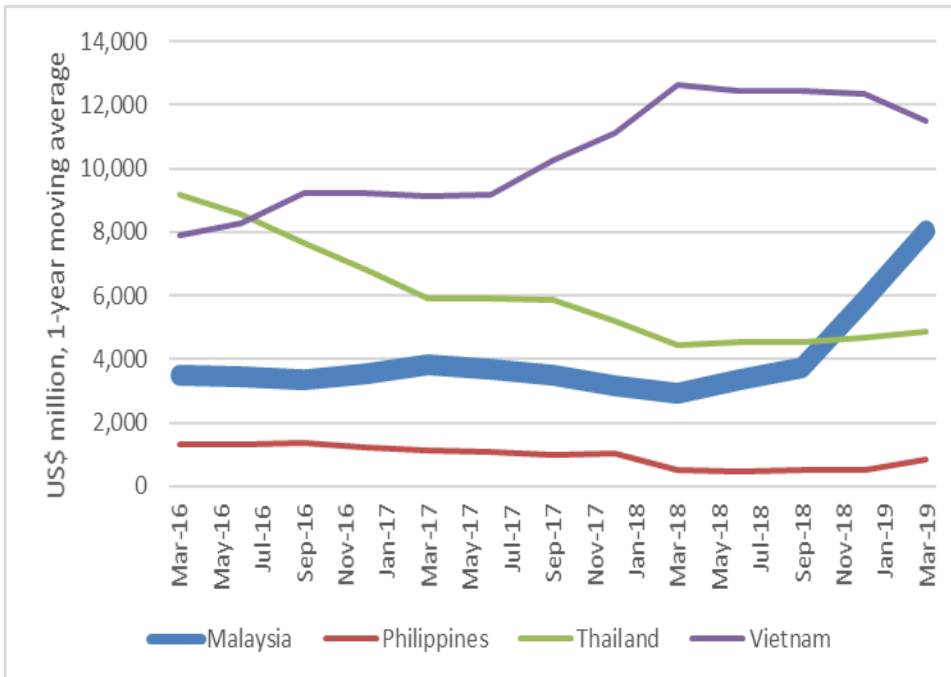


*FDI approvals
Source: CEIC Data Company.

# Risks remain tilted to the downside

❑ The greatest risk centers on prolonged US-PRC trade tensions, which heighten uncertainty

❑ Growth in the advanced economies and the PRC may slow by more than expected

❑ Rapid Fed hike less likely, but risk of financial volatility remains

# The Trade Conflict and its Implications
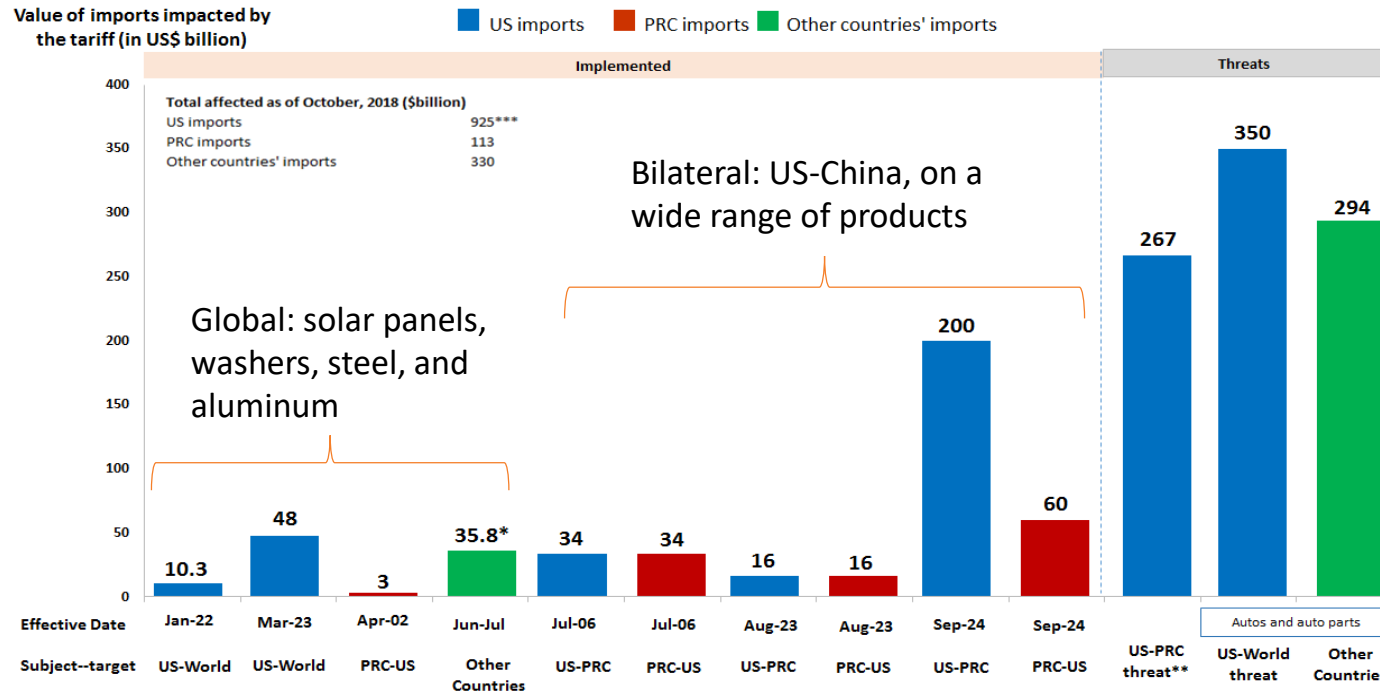
# The trade conflict escalated and became more bilateral in late 2018...



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

■ US imports ■ PRC imports ■ Other countries' imports

**Total affected as of October, 2018 ($billion)**
| | |
|---|---|
| US imports | 925*** |
| PRC imports | 113 |
| Other countries' imports | 330 |

Bilateral: US-China, on a wide range of products

Global: solar panels, washers, steel, and aluminum

Implemented / Threats

| Effective Date | Jan-22 | Mar-23 | Apr-02 | Jun-Jul | Jul-06 | Jul-06 | Aug-23 | Aug-23 | Sep-24 | Sep-24 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Value | 10.3 | 48 | 3 | 35.8* | 34 | 34 | 16 | 16 | 200 | 60 | 267 | 350 | 294 |
| Subject--target | US-World | US-World | PRC-US | Other Countries | US-PRC | PRC-US | US-PRC | PRC-US | US-PRC | PRC-US | US-PRC threat** | US-World threat | Other Countries |

Autos and auto parts

PRC = People's Republic of China, US = United States,

**Note:** *The $35.8 billion in retaliatory tariffs against US steel and aluminum tariffs were by Canada ($16.6 billion), India ($10.6 billion), the European Union (EU) ($3.2 billion), Mexico ($3 billion), Turkey ($2.31 billion), and the Russia Federation ($87.6 million). It excludes pending cases filed by EU ($4.1 billion) and Japan ($1.9 billion) via the World Trade Organization dispute settlement mechanism. **The PRC has so far retaliated tit for tat. Continued tit for tat would require retaliation by $17 billion. The PRC has not yet announced a list, but such tariffs are assumed under the bilateral escalation scenario.

***The $925 billion in total affected US imports as of October 2018 includes all US implemented and threatened tariffs against PRC and other countries.

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# ...which is worrisome, because the PRC and the US serve as important hubs in global value chains.
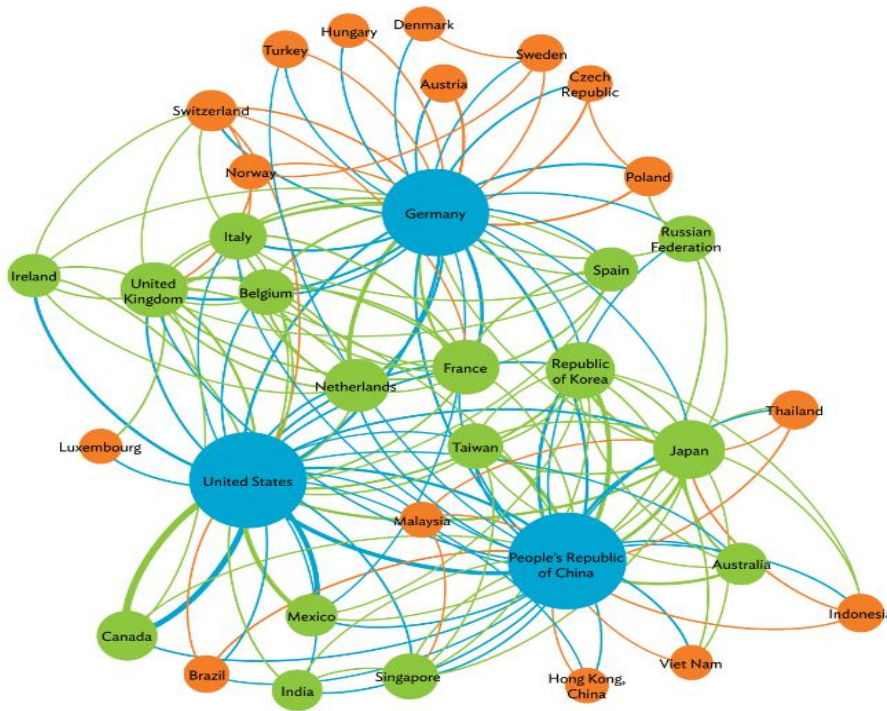


- The US and PRC are two of the three global manufacturing hubs for global value chains.

- An escalated trade war between the two can potentially disrupt the existing network of global value chains, which could reduce global production and trade activity.

**Note:** Chart shows the top 35 countries in MRIOT in terms of GVC participation. Node size is based on GVC participation, measured by the sum of backward and forward participation. Blue nodes are the top 3 countries in terms of GVC participation; green nodes, the next 16; and orange, the following 16. Line thickness indicates the size of bilateral intermediate goods exports, where lines are only shown when these exports exceed $10 billion. Line color is based on color of source node.
**Source:** Abiad et al. (2018).

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# Methodology

**Objective**

- Evaluate the global, regional, country- and sector-specific impacts of the current trade conflict

**Channels**

- Quantify the **direct impact of tariffs**, at the product level
- Examine **indirect impact via production linkages**, using international input-output data and models
- Allow for possible **trade redirection** toward suppliers not hit by tariffs

**Scenarios**

- Examine impact of **current scenario**, which includes all implemented measures as of <u>May 31, 2019</u>; a **bilateral escalation scenario** where 25% tariffs are imposed on *all* US-PRC trade; and **"worse-case" scenario** that adds a 25% tariff on *all* autos/parts

**Data**

- ADB Multi-Regional Input-Output Table (2017); covers whole economy (35 sectors) in 62 countries plus one that captures "rest of the world"; 90% of world GDP, 24 economies in developing Asia*

**Sectoral impacts for 40 countries and regions at https://data.adb.org/dataset/trade-conflict-impact**

* Bangladesh, Bhutan, Brunei Darussalam, Cambodia, the People's Republic of China, Fiji, Hong Kong, China, India, Indonesia, Kazakhstan, Republic of Korea, Kyrgyz Republic, Lao People's Democratic Republic, Malaysia, Maldives, Mongolia, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Taipei,China, Thailand and Viet Nam
Source: Abiad et al. (2018).

# Global effects: small impact under current scenario, but escalation presents substantial risks
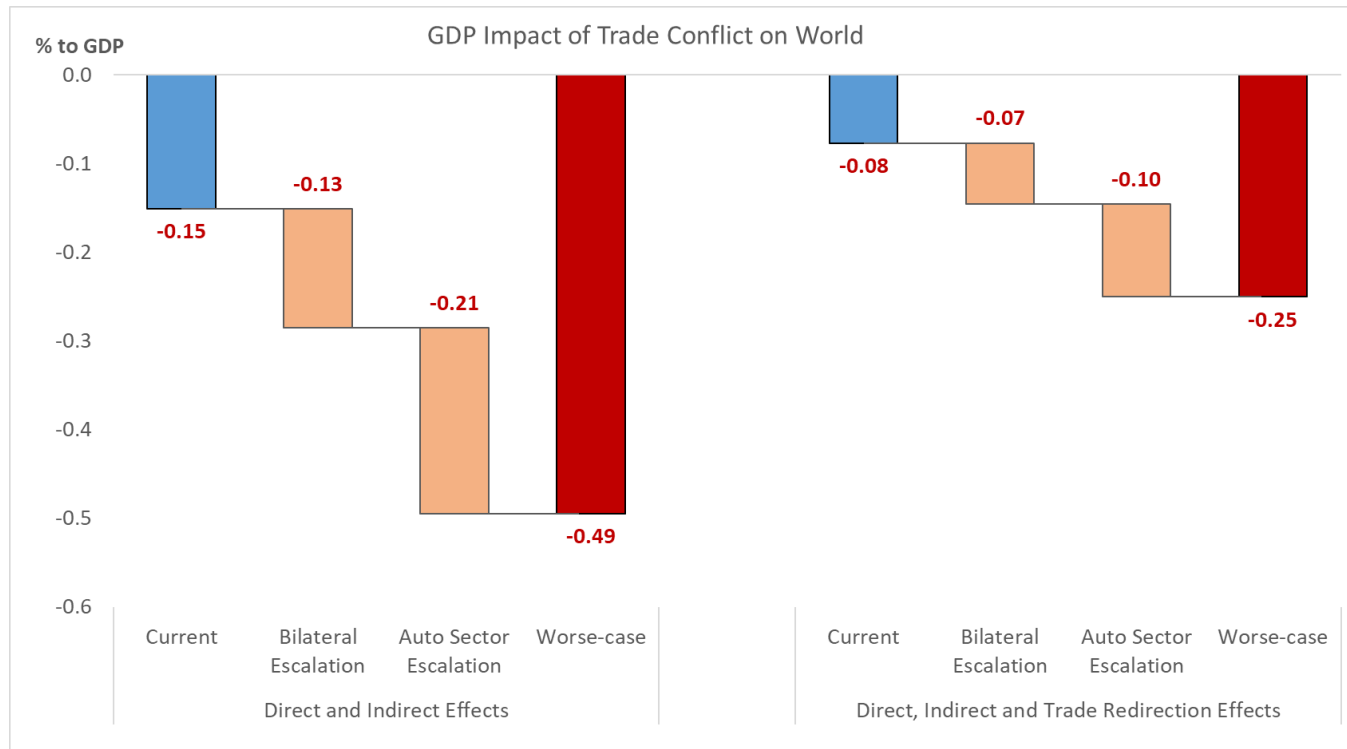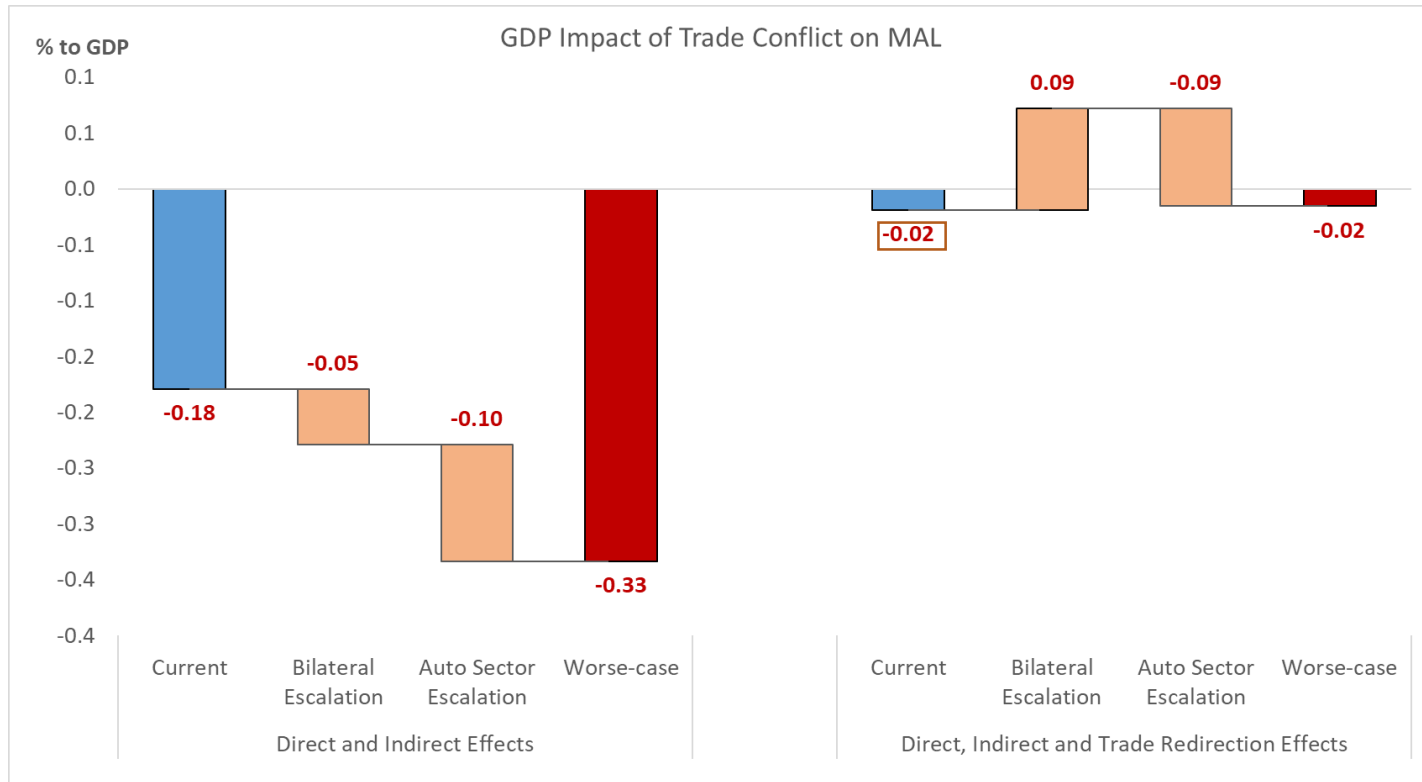


Note: The blue bars represent the estimated GDP impact under the current scenario. The subsequent two peach bars represent the incremental impact brought about by the US-PRC trade threats (25% on all bilateral exports) and the auto sector (tariffs on all auto and auto parts traded globally) escalation respectively. The red bars represent the sum of all the impacts under the worse-case scenario. This assumes that only half of tariff-affected trade is redirected.

Sources: ADB estimates using data from ADB Multi-regional Input-Output Table (MRIOT) database and Abiad et al. (2018).
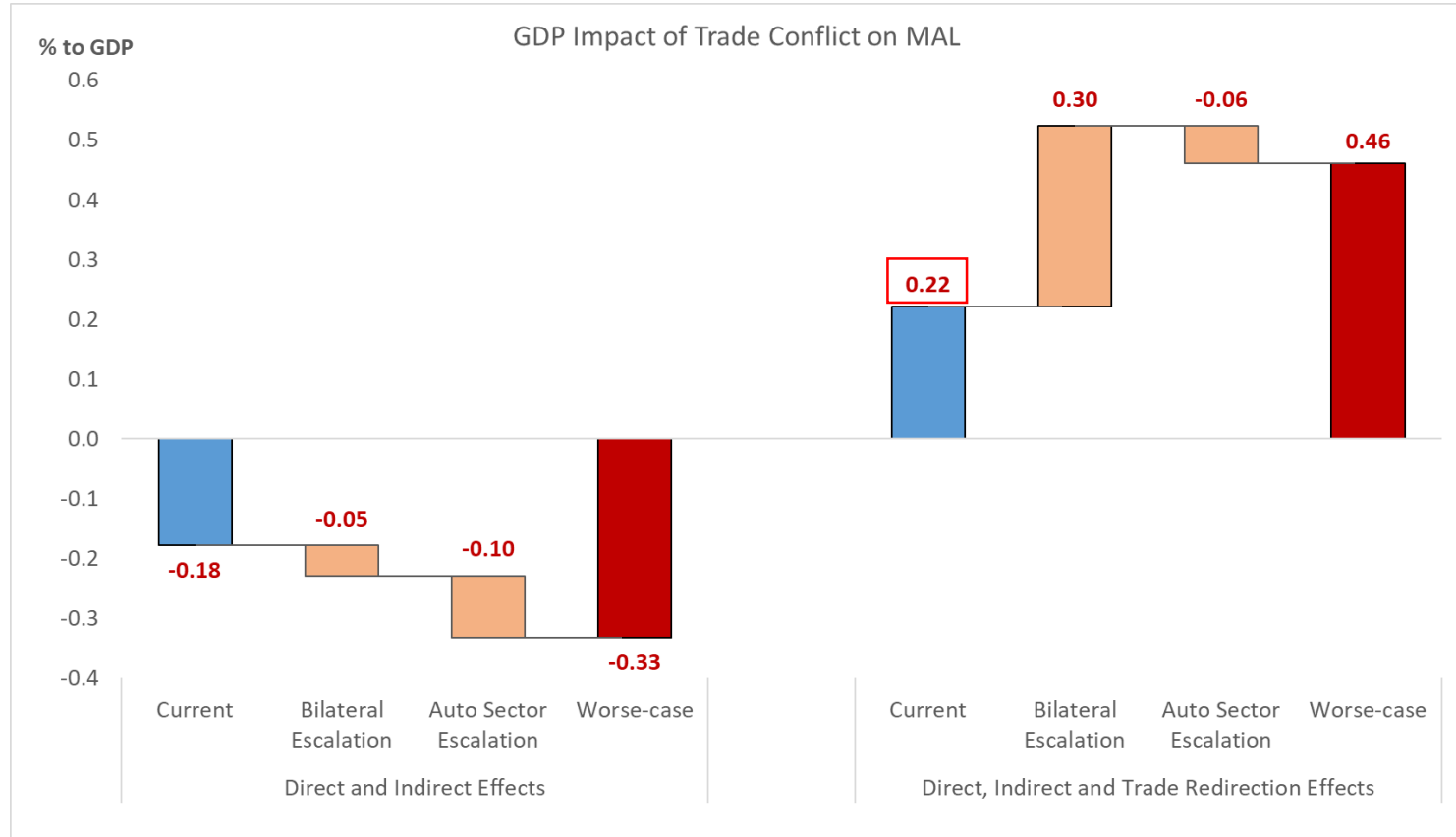
# Assuming 20% of tariff-affected trade is redirected, the impact on Malaysia's GDP is minimal (-0.02%) in the current scenario, with Machinery, n.e.c. sector benefitting the most (+1.38%)



**GDP Impact of Trade Conflict on MAL**

% to GDP

Direct and Indirect Effects:
- Current: -0.18
- Bilateral Escalation: -0.05
- Auto Sector Escalation: -0.10
- Worse-case: -0.33

Direct, Indirect and Trade Redirection Effects:
- Current: -0.02
- Bilateral Escalation: 0.09
- Auto Sector Escalation: -0.09
- Worse-case: -0.02

Sources: ADB estimates using data from ADB Multi-regional Input-Output Table (MRIOT) database and Abiad et al. (2018).

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# If half of the tariff-affected trade is redirected, Malaysia will gain 0.22% on GDP



GDP Impact of Trade Conflict on MAL

% to GDP

Direct and Indirect Effects:
- Current: -0.18
- Bilateral Escalation: -0.05
- Auto Sector Escalation: -0.10
- Worse-case: -0.33

Direct, Indirect and Trade Redirection Effects:
- Current: 0.22
- Bilateral Escalation: 0.30
- Auto Sector Escalation: -0.06
- Worse-case: 0.46
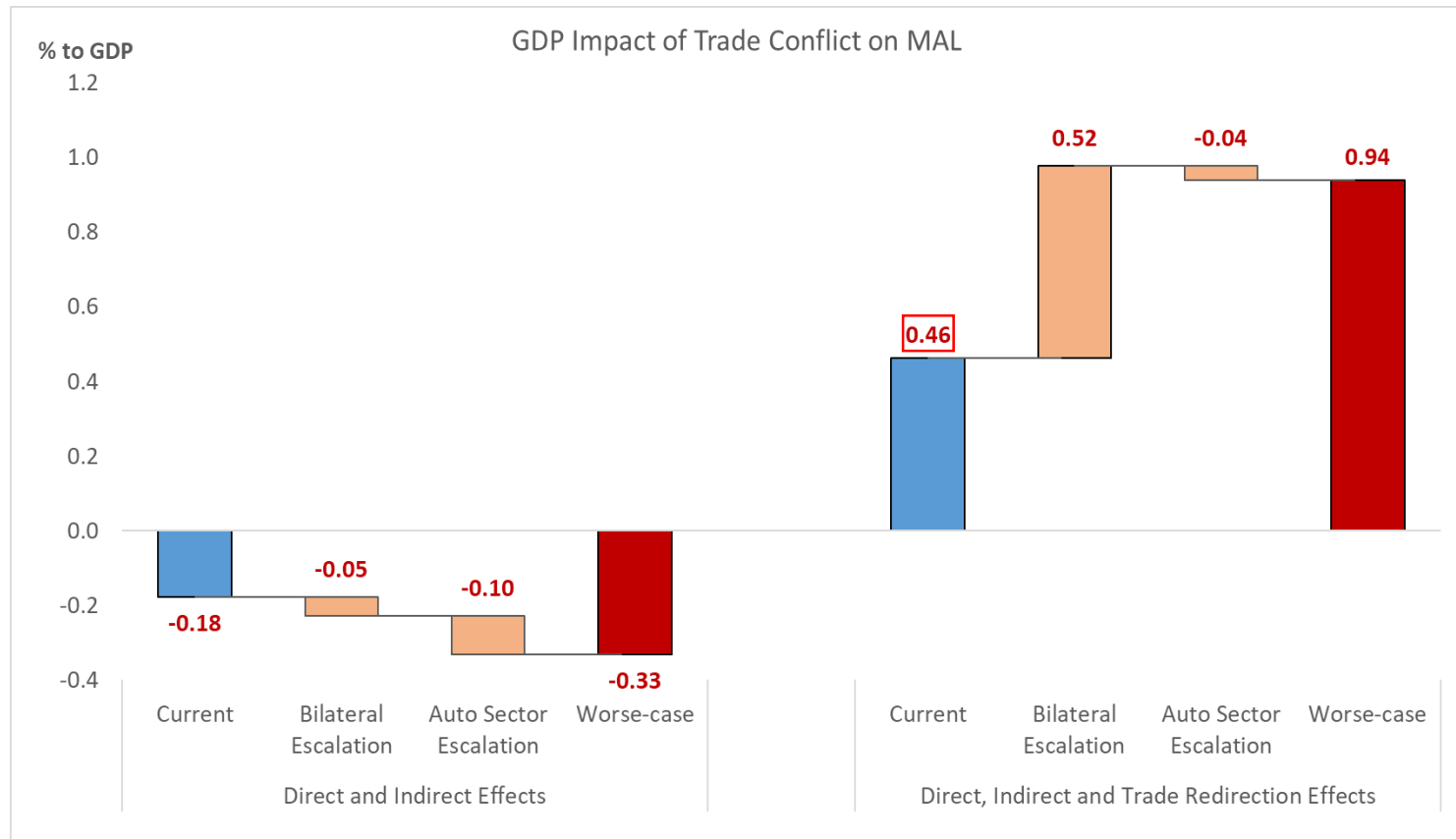
Sources: ADB estimates using data from ADB Multi-regional Input-Output Table (MRIOT) database and Abiad et al. (2018).

# At 80% trade redirection, Malaysia's GDP may increase by 0.46% with the net impact on Machinery, n.e.c. sector (+5.78%), and Chemicals and Chemical Products sector (+3.45%) being significant



GDP Impact of Trade Conflict on MAL

% to GDP

Direct and Indirect Effects:
- Current: -0.18
- Bilateral Escalation: -0.05
- Auto Sector Escalation: -0.10
- Worse-case: -0.33

Direct, Indirect and Trade Redirection Effects:
- Current: 0.46
- Bilateral Escalation: 0.52
- Auto Sector Escalation: -0.04
- Worse-case: 0.94

Sources: ADB estimates using data from ADB Multi-regional Input-Output Table (MRIOT) database and Abiad et al. (2018).

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# Conclusion

**Developing Asia's growth moderating amid weaker global demand and trade tensions**

**The primary risk still centers on the trade conflict, with uncertainty heightened by protracted negotiations**

**Some of the impact of the trade conflict could be offset by trade redirection as production moves out of PRC.**

Thank you.