Asia's Short-Run Economic Outlook and Impact of China-US Trade Conflict

Dr. Donghyun Park
Asian Development Bank

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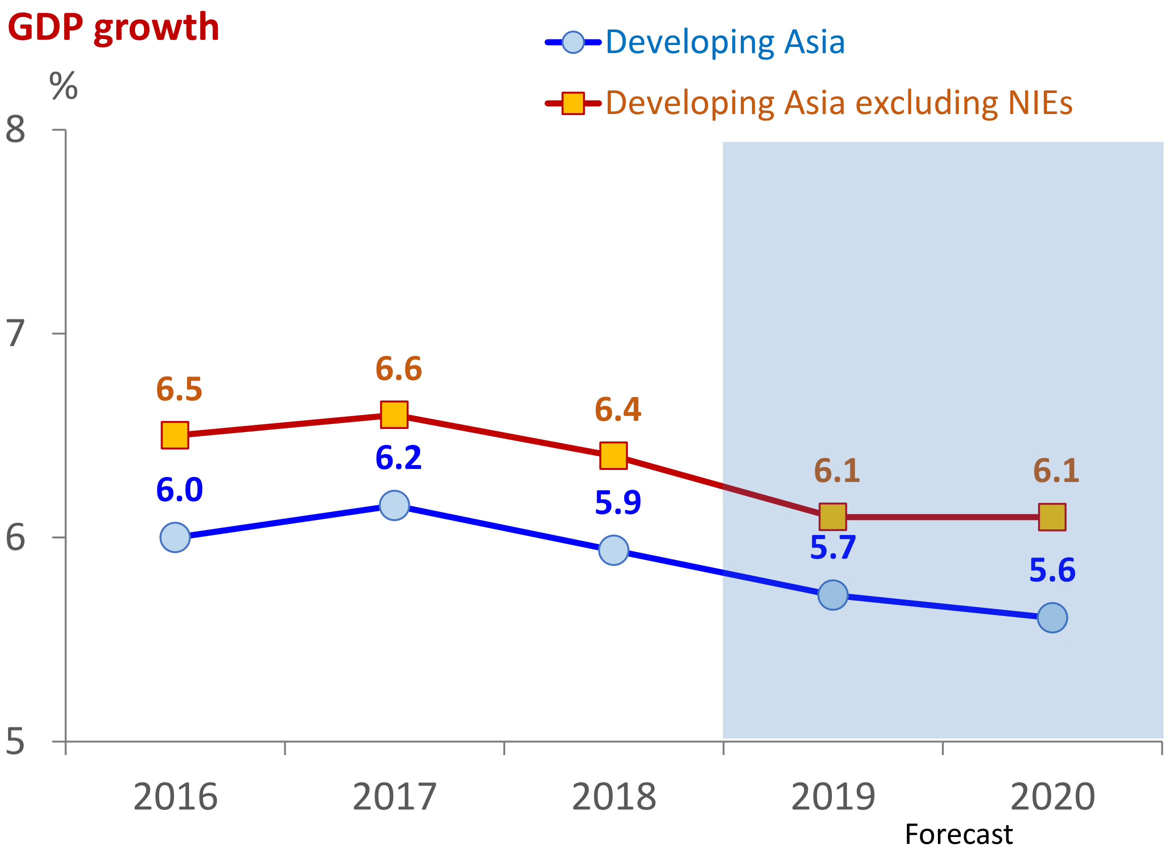
Key Messages

- **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 2.6% in 2019 and 2020**
- **The primary risk still centers on the trade conflict, with uncertainty heightened by protracted negotiations**
- **Asia must strengthen its disaster resilience under growing risks posed by natural hazards**

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



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

Source: *Asian Development Outlook* database.

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	2.6	1.9
Euro area	2.5	1.8	1.3	1.4
Japan	1.9	0.8	0.8	0.6

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

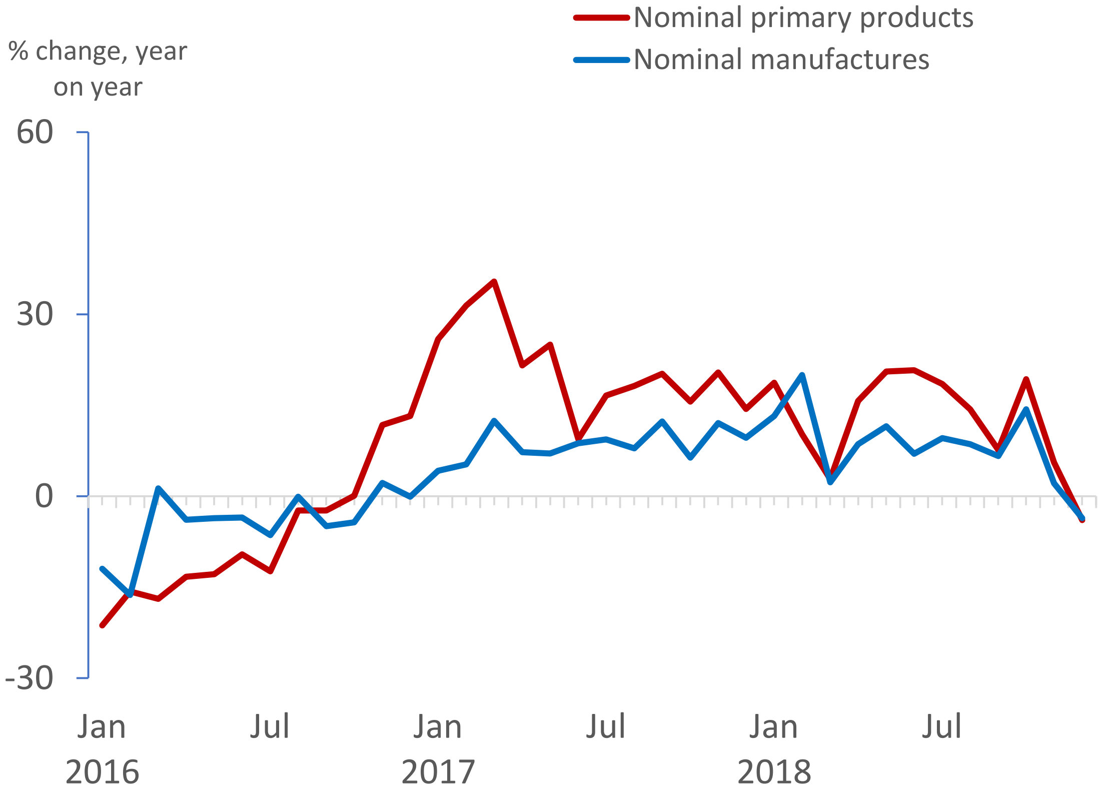
Sources: US Department of Commerce, Bureau of Economic Analysis, http://www.bea.gov; Eurostat, http://epp.eurostat.ec.europa.eu; Economic and Social Research Institute of Japan, http://www.esri.cao.go.jp; Consensus Forecasts; Bloomberg; CEIC Data Company; Haver Analytics; ADB estimates.

Global trade and activity slowed and trade tensions escalated…

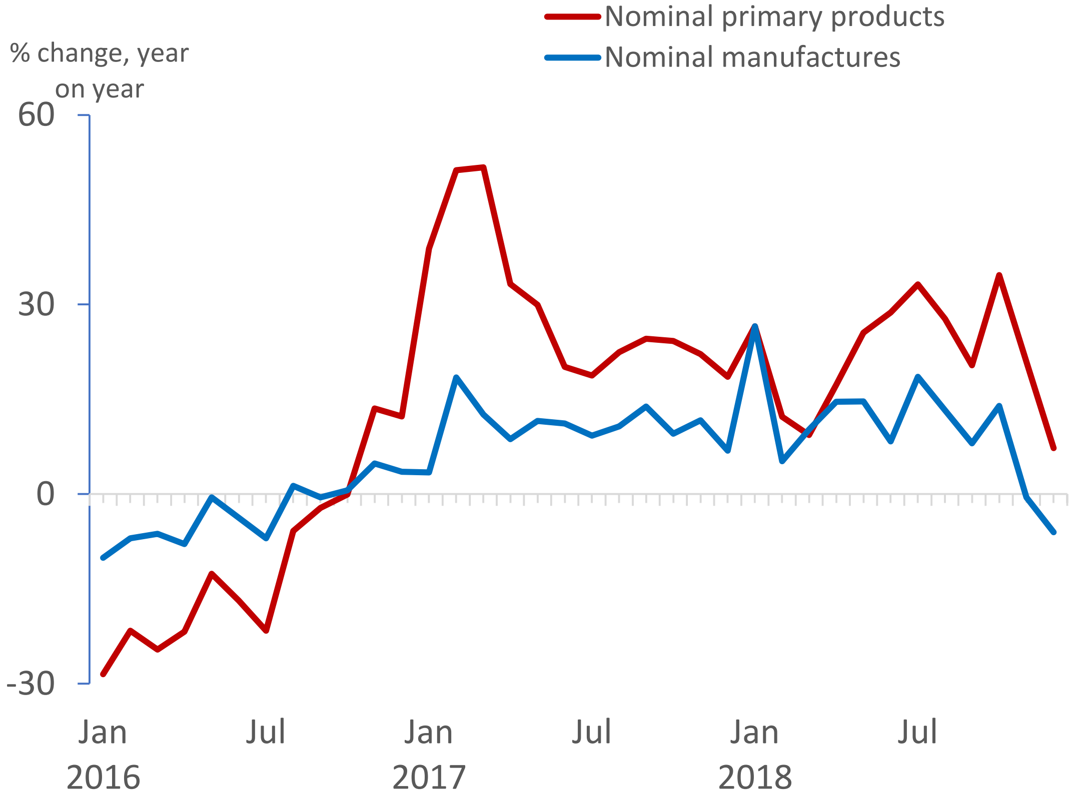
PMI = purchasing managers' index, PRC = People's Republic of China, sa = seasonally adjusted, US = United States.
Sources: Haver Analytics; CEIC Data Company.

…which weighed on the region’s exports…

Exports growth, by product categories



Imports growth, by product categories

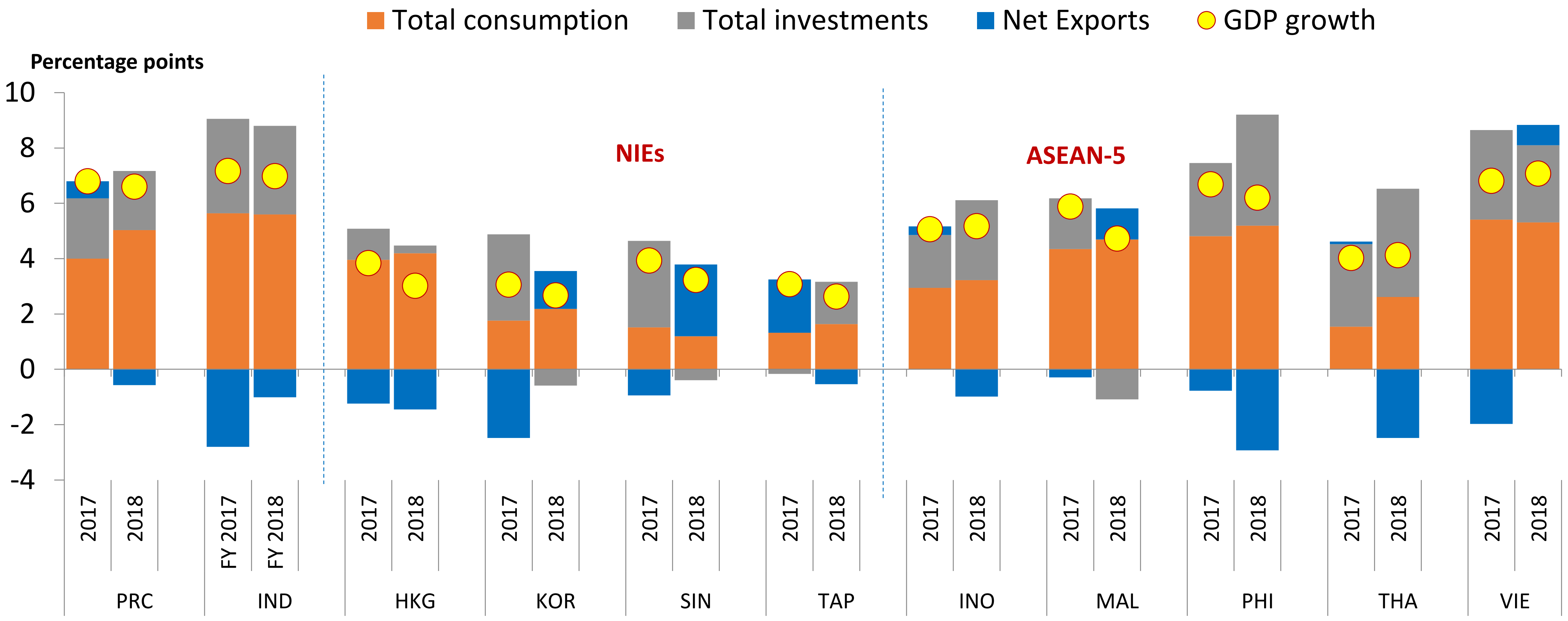


Primary products refer to food and live animals (SITC Rev. 3, Code 0); beverages and tobacco (Code 1); Crude materials , inedible, except fuels (Code 2); mineral fuels, lubricants and related materials (Code 3); and animal and vegetable oils, fats and waxes (Code 4). **Manufactured goods** refer to chemicals and related products, nes (Code 5); manufactured goods, classified chiefly by material (Code 6); machinery and transport equipment (Code 7); miscellaneous manufactured articles (Code 8); and commodities and transactions not classified elsewhere in the SITC (Code 9).

Note: Refers to data for 10 developing Asian economies, namely, Hong Kong, China, India, Indonesia, Malaysia, PRC, Philippines, Republic of Korea, Singapore, Taipei,China, and Thailand.
Source: Staff estimates using data from CEIC Data Company and Haver Analytics.

…but domestic demand has supported the region's growth.

Demand-side contributions to growth, selected economies, 2018



Notes: ASEAN = Association of Southeast Asian Nations, HKG = Hong Kong, China, IND = India, INO = Indonesia, KOR = Republic of Korea, MAL = Malaysia, NIEs = newly industrialized economies, PHI = Philippines, PRC = People's Republic of China, SIN = Singapore, TAP = Taipei,China, THA = Thailand, VIE = Viet Nam.
Data for India are in Fiscal Years which covers the period 1 April to 30 March. **Components do not add to GDP growth due to Statistical Discrepancy.**

Source: Haver Analytics (accessed 10 March 2019); ADB estimates.

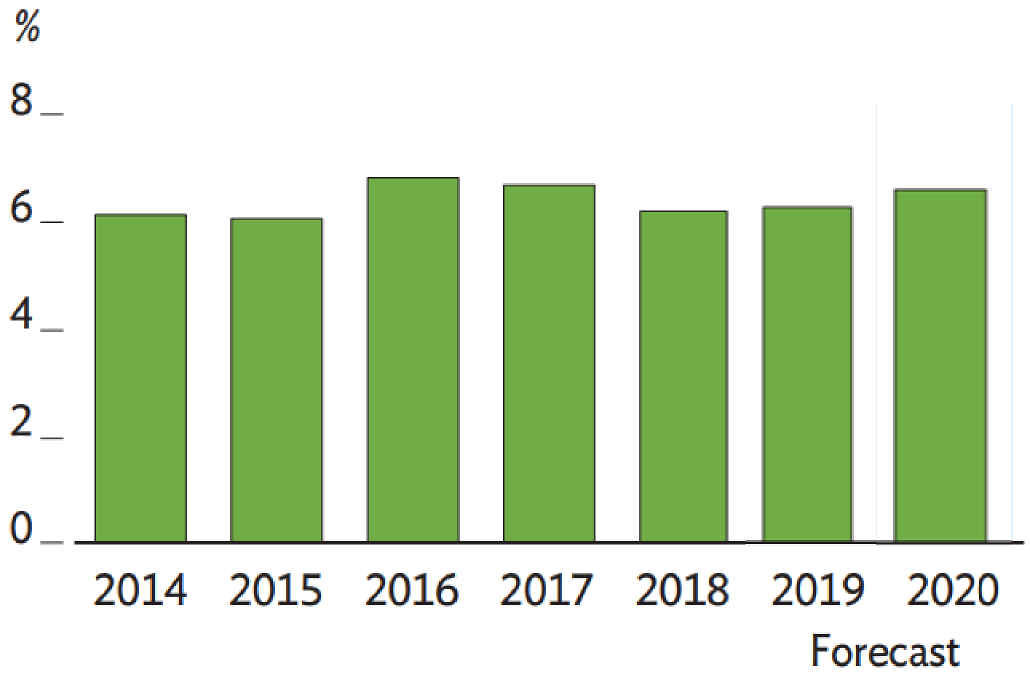
Developing Asia's more open sub-regions will see more of a slowdown in 2019.

	2018	*2019*	*2020*		2018	*2019*	*2020*
East Asia	**6.0**	**5.7** ↓	**5.6** ↓	**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	7.0	7.2 ↑
Republic of Korea	2.7	2.4 ↓	2.5 ↑	Pakistan	5.2	3.9 ↓	3.6 ↓
Taipei,China	2.6	2.2 ↓	2.0 ↓				
				Central Asia	**4.3**	**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	3.6 ↓	3.3 ↓
Malaysia	4.7	4.5 ↓	4.7 ↑				
Philippines	6.2	6.2	6.4 ↑	**The Pacific**	**1.0**	**3.5** ↑	**3.2** ↓
Singapore	3.1	2.4 ↓	2.5 ↑	Fiji	3.0	3.2 ↑	3.5 ↑
Thailand	4.1	3.5 ↓	3.6 ↑	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**	**6.1** ↓	**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, 18 July 2019.

Domestic demand will support Philippines' growth

GDP growth

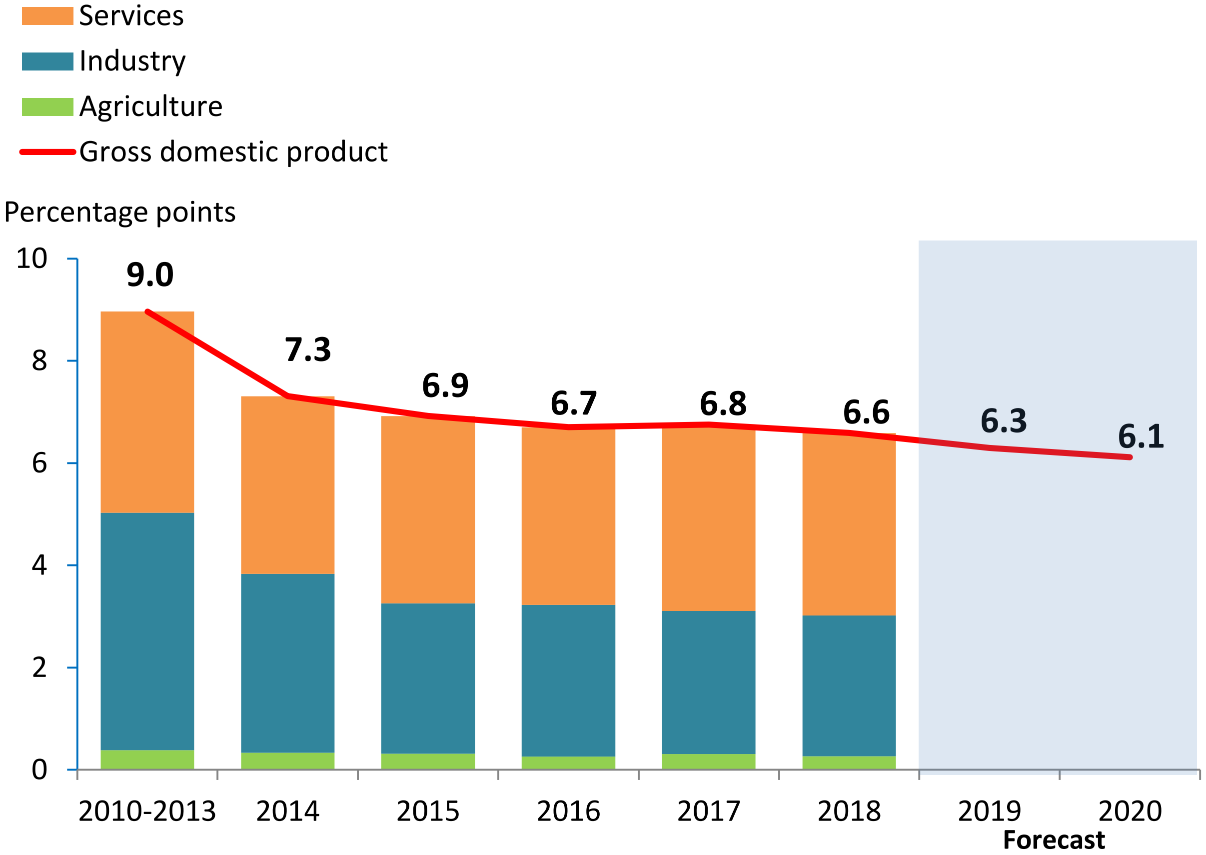


Source: *Asian Development Outlook* database

- GDP grew by 6.2% in 2018, moderating from 6.7% in 2017. Growth will slow to 6.2% in 2019 and 6.4% in 2020.
- Growth will be supported by strong domestic demand via consumption and public investment.
- Most risks are on the downside. Moderating global growth — the slowdown of the PRC, the US and other advanced economies and trade tensions— will weigh on growth. Domestic risks would be severe El Nino and delayed budget approval.

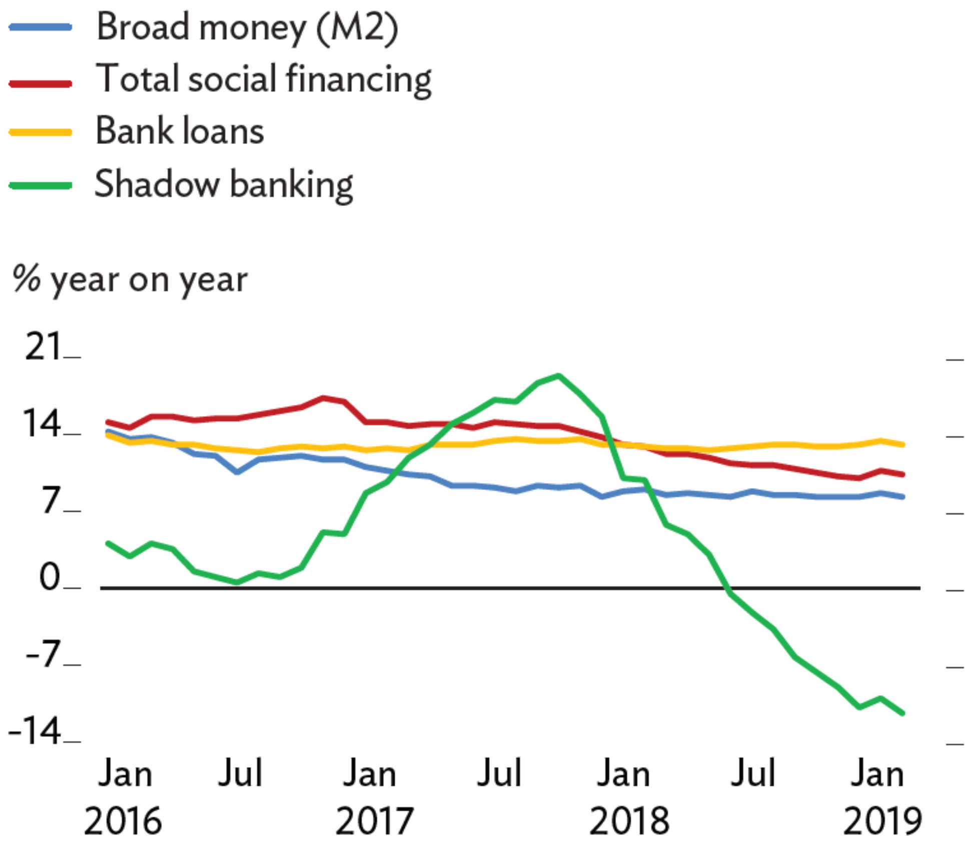
PRC moderation reflects both structural factors and policy tightening.

Supply-side contributions to growth



Source: National Bureau of Statistics.

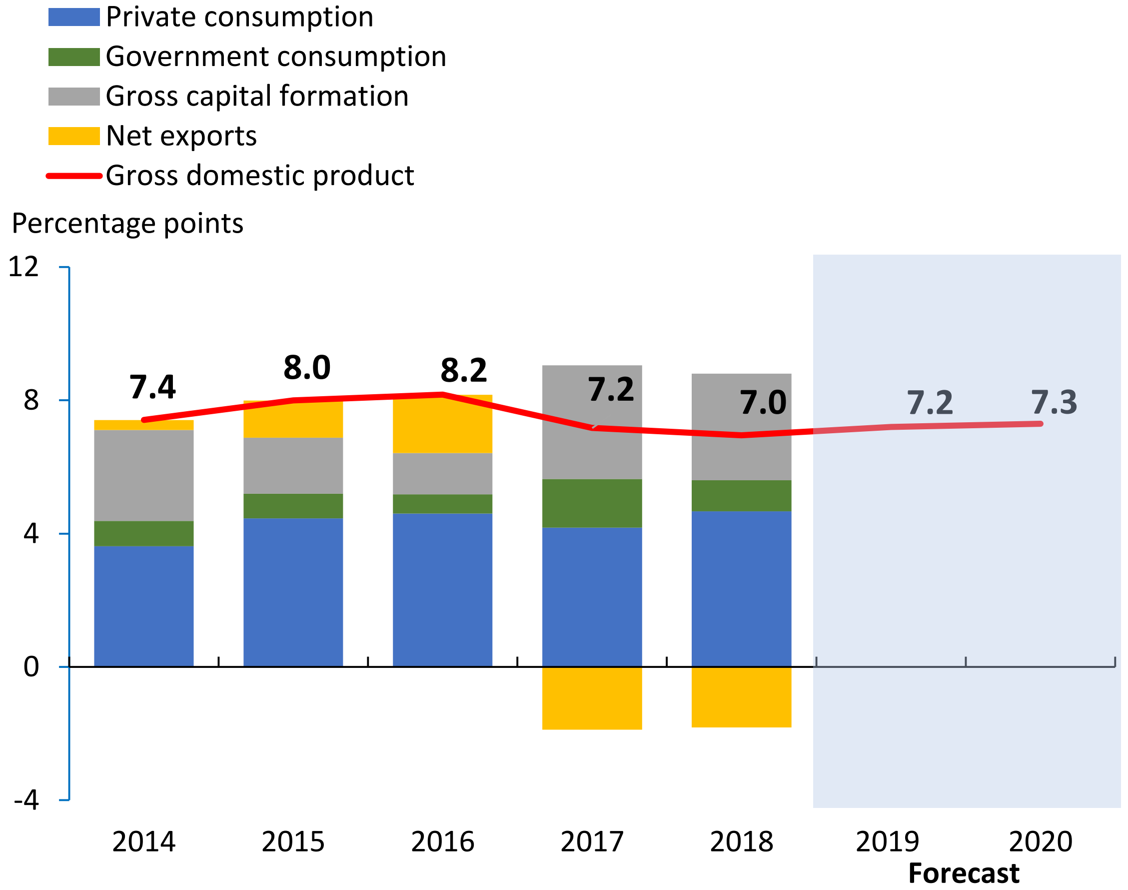
Growth of broad money, total social financing, bank loans, and shadow banking



Note: Shadow banking = entrusted loans + trust loans + banker's acceptance bills.
Sources: People's Bank of China; ADB estimates.

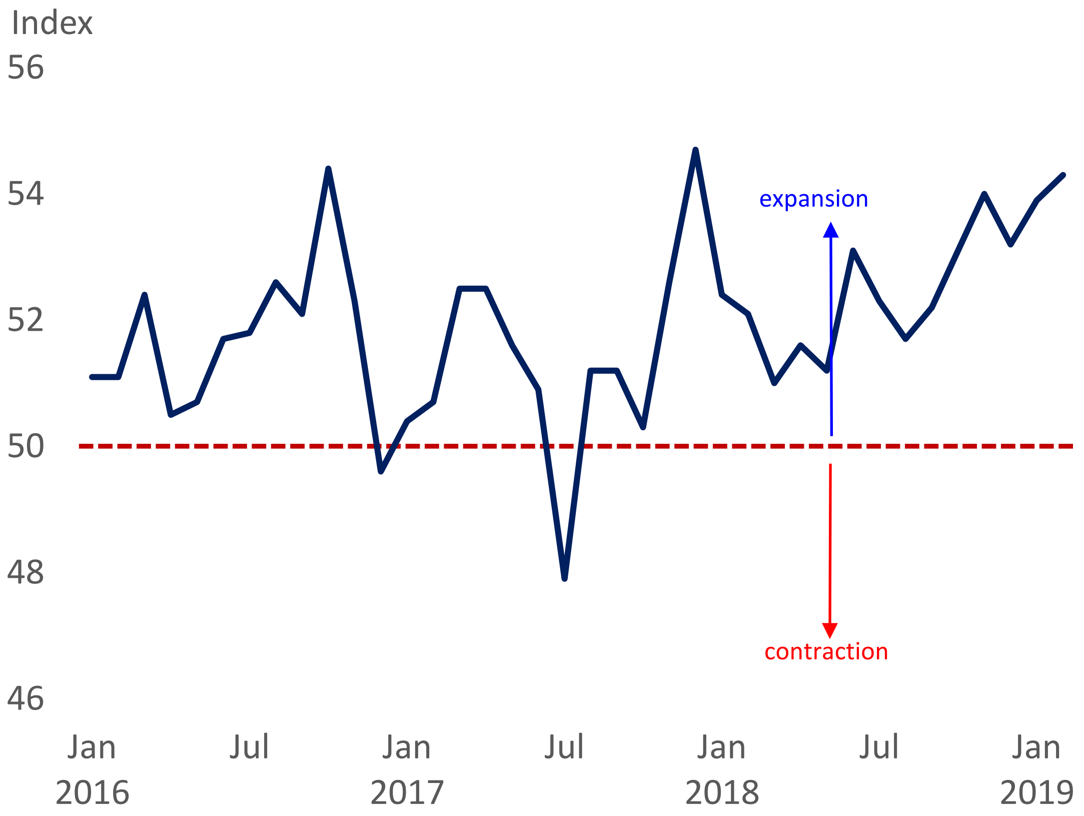
In India, domestic demand remains strong and will be supported by policy easing going forward

Demand-side contribution to growth



Years are in fiscal years which covers the period 1 April to 30 March. Net exports includes statistical discrepancy.
Source: *Asian Development Outlook database*.

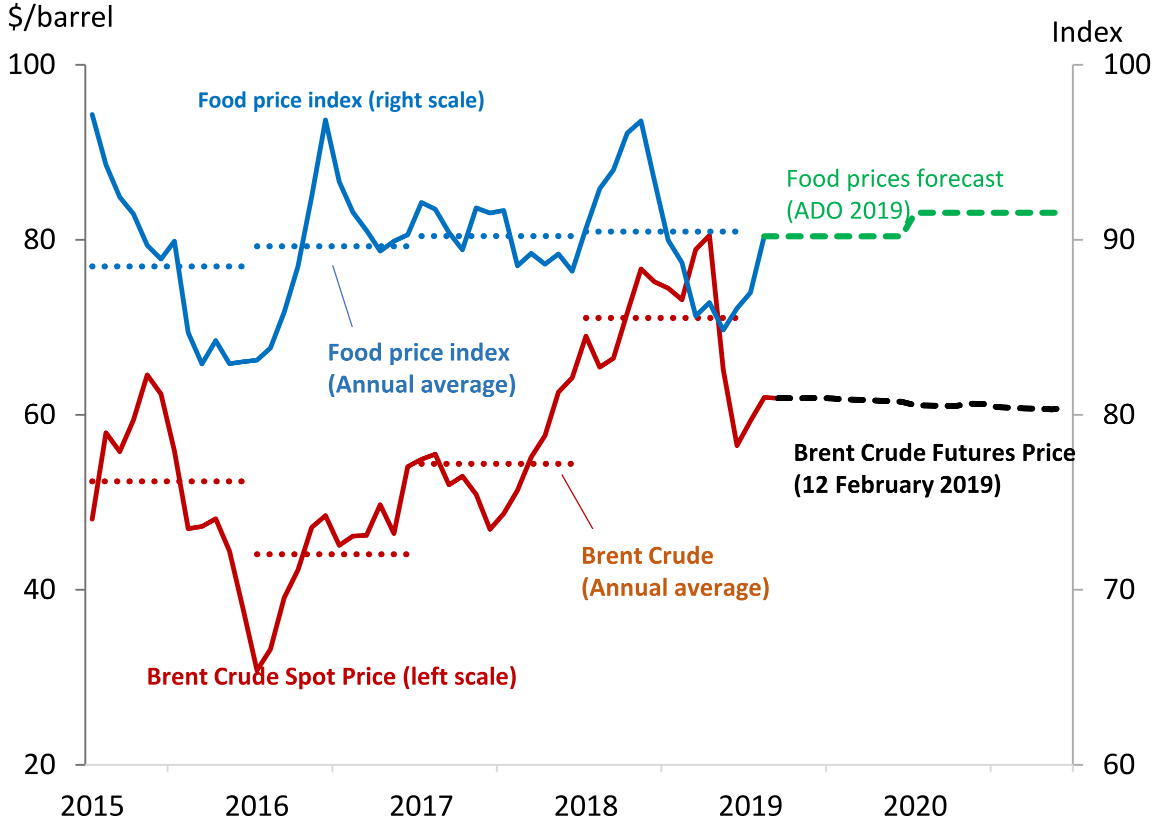
Purchasing manager's index, Manufacturing



Notes:.
Source: Bloomberg (accessed 6 March 2019).

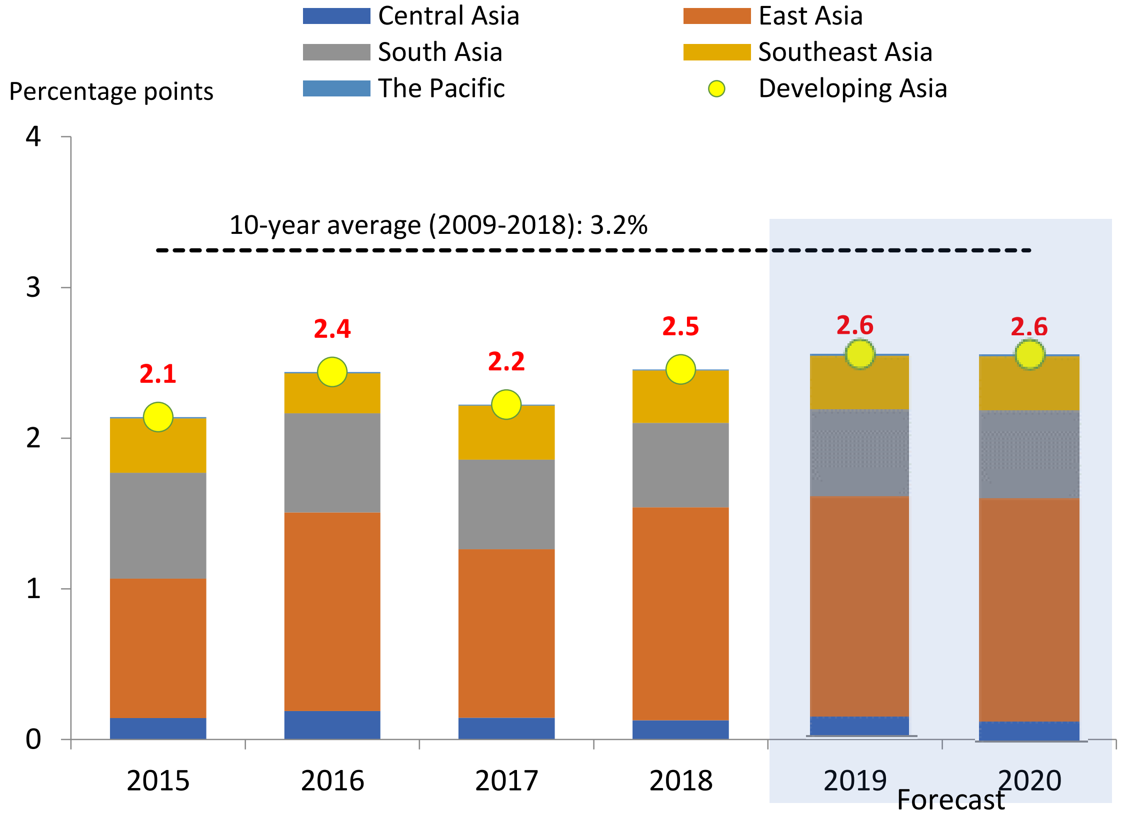
Stable food and fuel prices are expected keep inflation in check.

Brent crude and food prices



Source: Bloomberg.

Inflation and sub-regional contributions, developing Asia

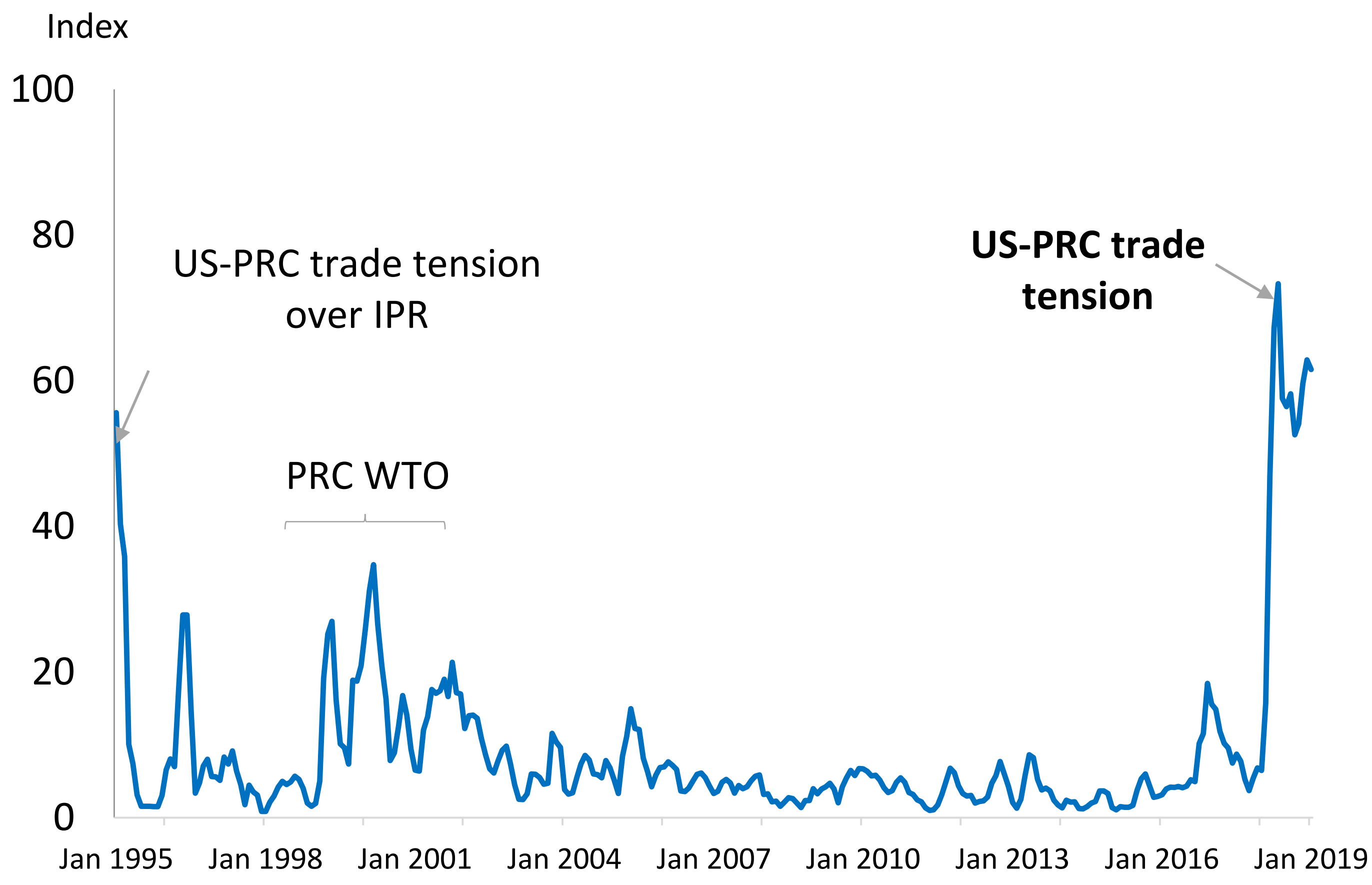


Source: *Asian Development Outlook 2019* database.

Risks remain tilted on 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.

PRC: Trade Policy Uncertainty Index, 1995-2019



Source: ADB staff estimates, based on methodology of Hlatshwayo (2018).

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 November 2018; 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*

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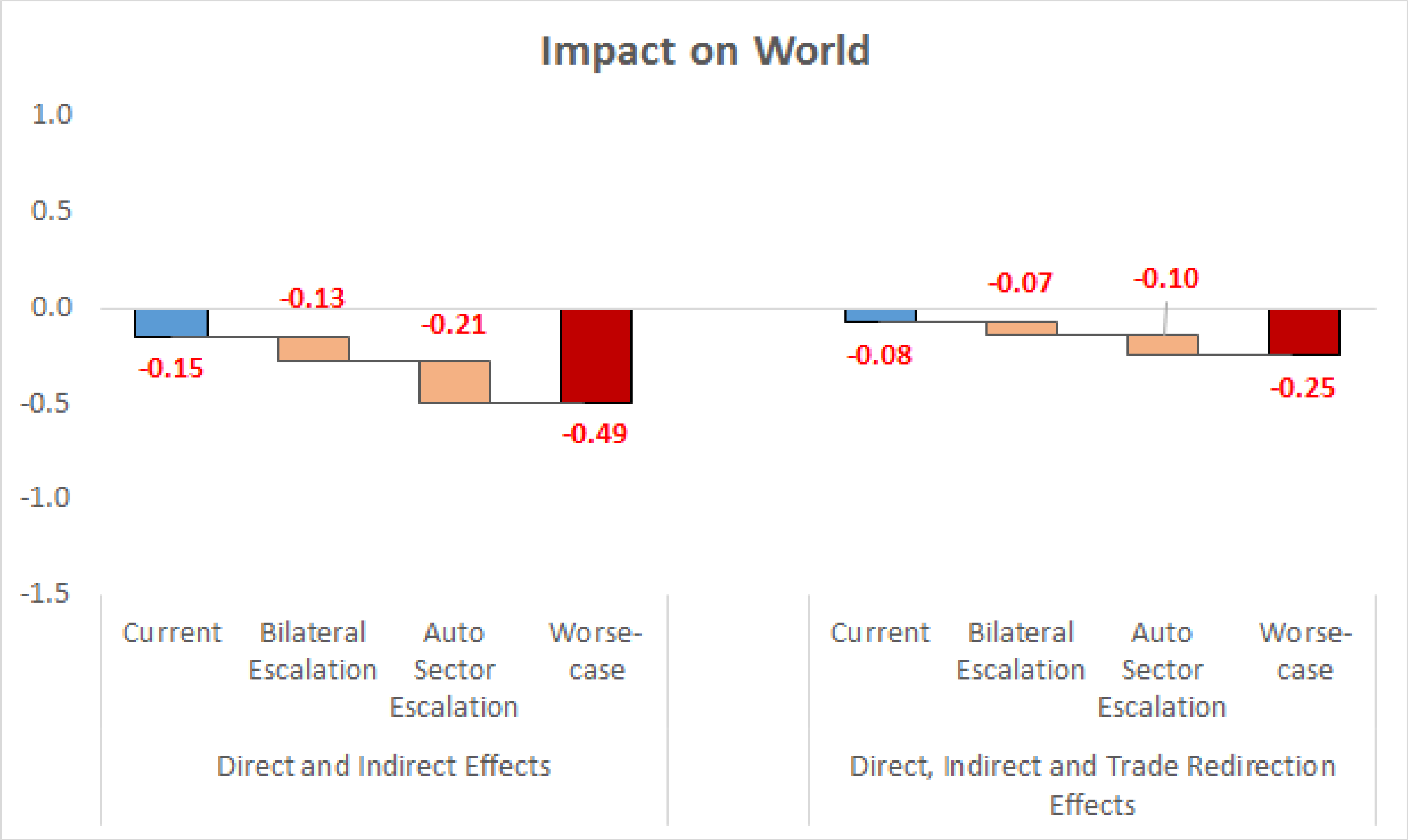
* Bangladesh, Bhutan, Brunei Darussalam, Cambodia, the People's Republic of China, Fiji, Hong Kong, China, India, Indonesia, Kazakhstan, Republic of Korea, Kyrgyz Republic, Lao People's Democratic Republic, Malaysia, Maldives, Mongolia, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Taipei,China,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

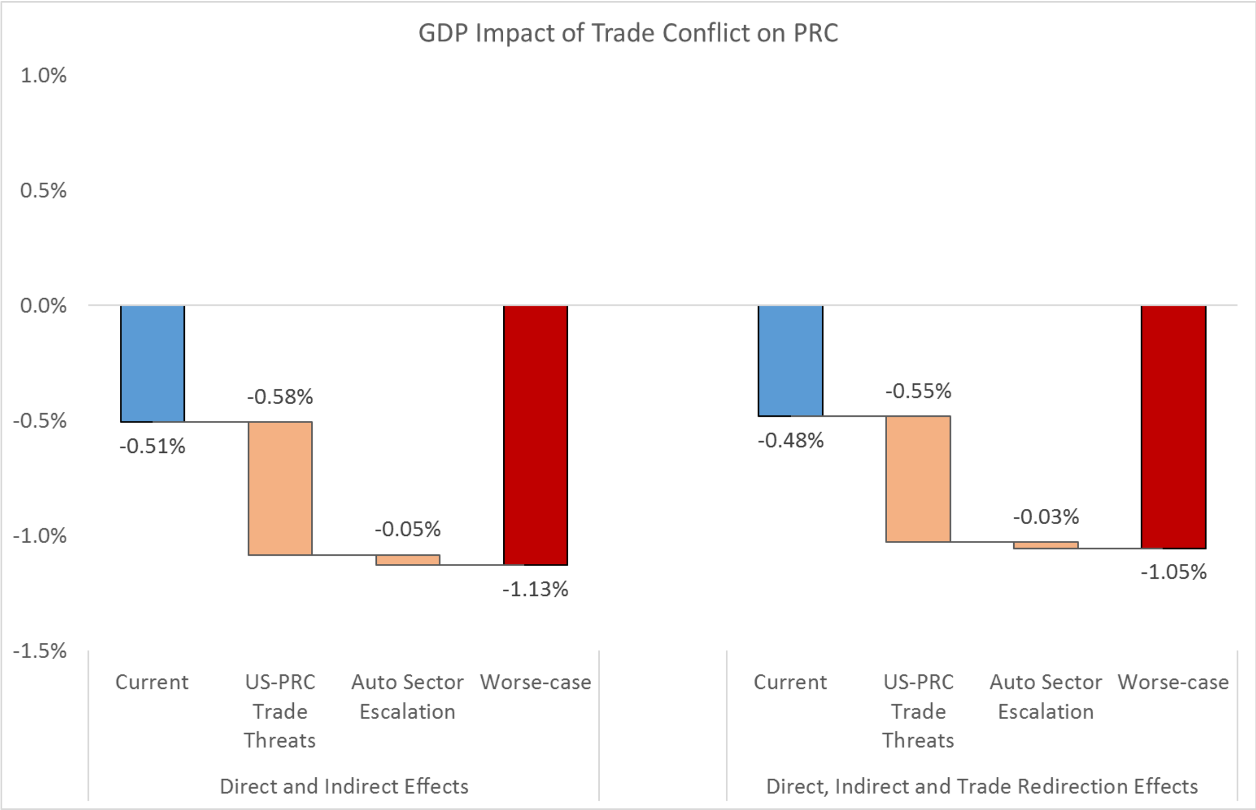
Global effects: current tariffs would have a small impact on world GDP, but escalation presents substantial risks

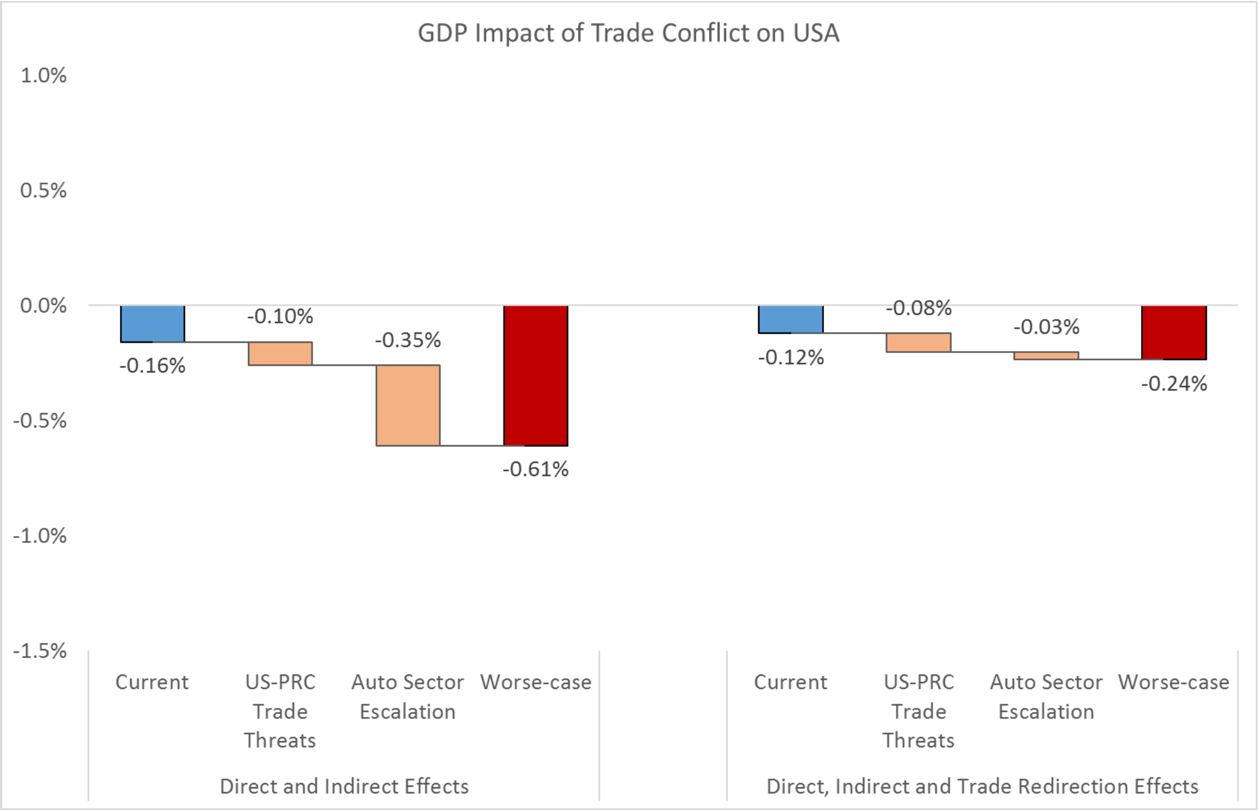


Note: The blue bars represent the estimated GDP impact under the current scenario. The subsequent two peach bars represent the incremental impact brought about by the US-PRC trade threats (25% on all bilateral exports) and the auto sector (tariffs on all auto and auto parts traded globally) escalation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

Source: Staff calculations.

The protagonists: the PRC and the US are negatively affected in each scenario, with a larger impact on the PRC





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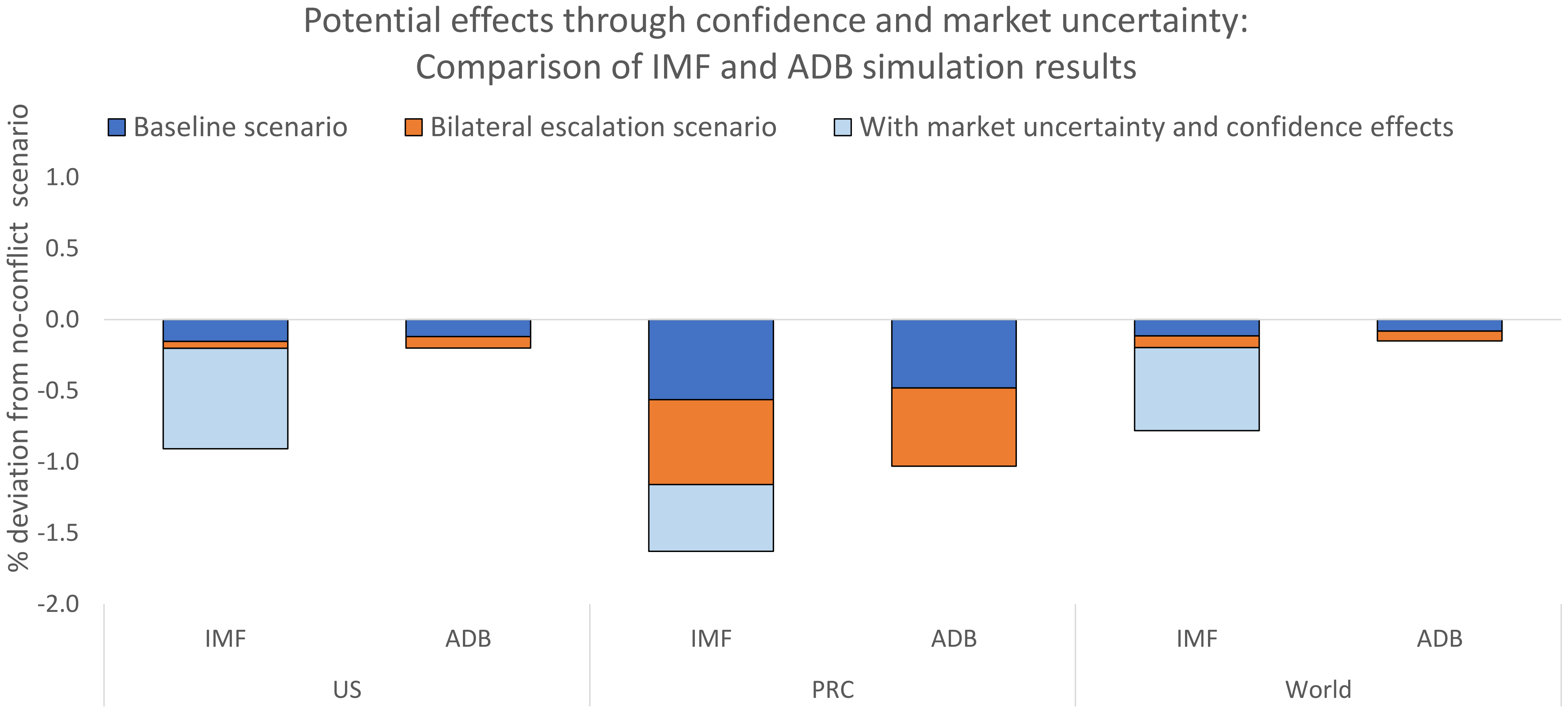
Uncertainty and reduced confidence can exacerbate negative effects on world, US, and PRC



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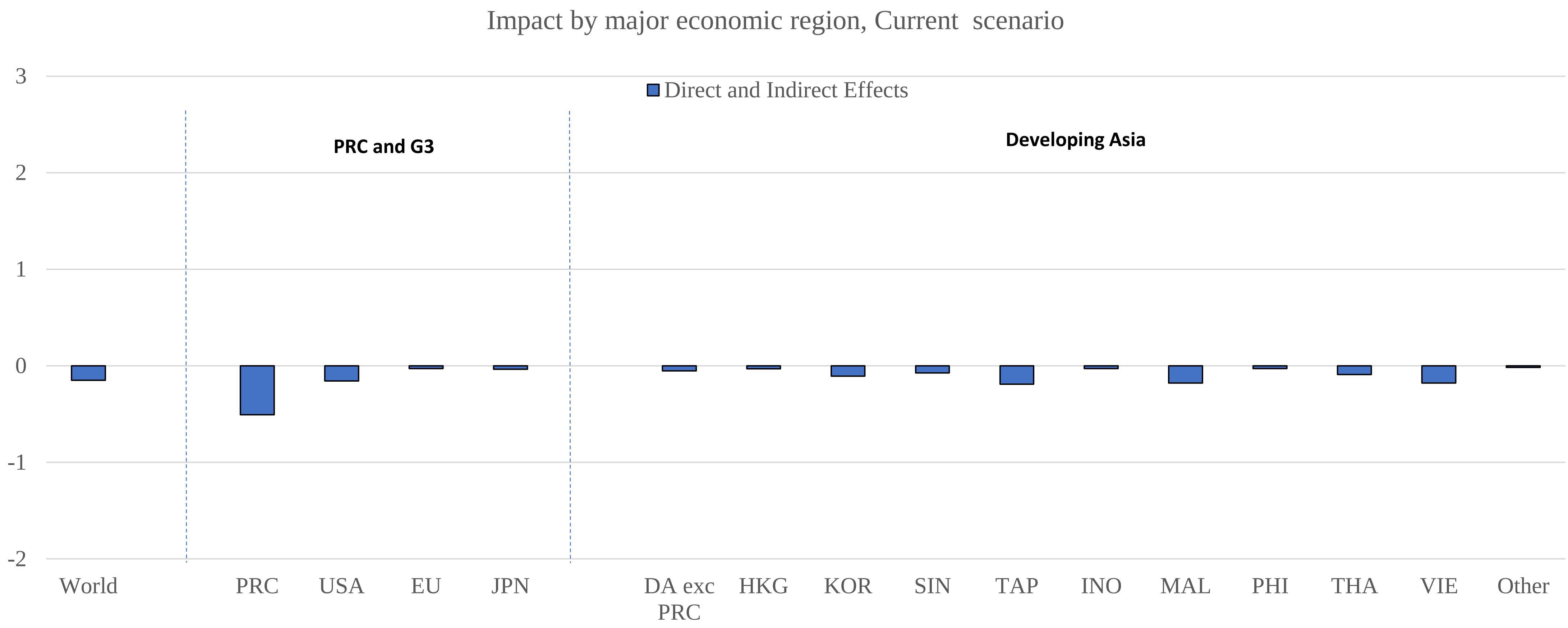
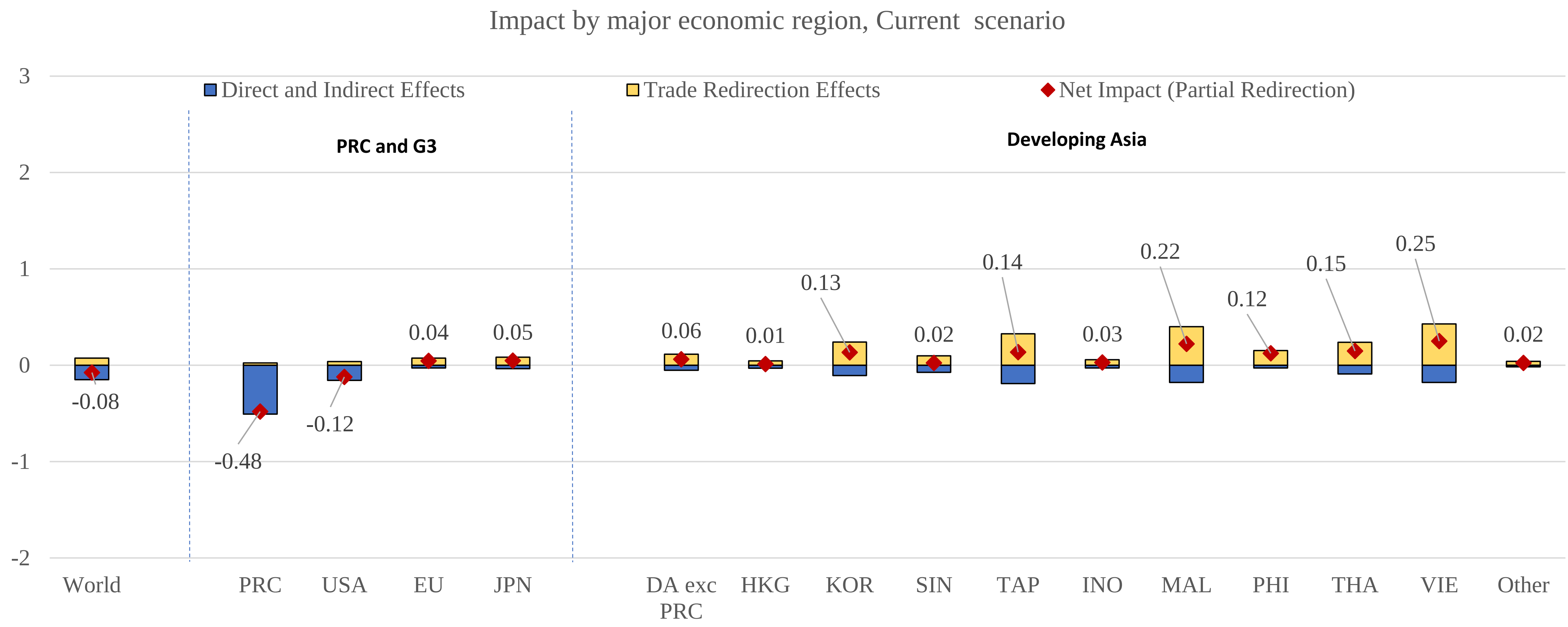
Source: October 2018 IMF World Economic Outlook, September 2018 ADB Asian Development Outlook Update, authors' calculations.

Regional impact: effects through direct (tariff) and indirect (prod. linkages) channels is negative and small…



Note: DA = developing Asia; PRC = People's Republic of China; G3 = European Union, Japan, and United States; EU = European Union; HKG = Hong Kong, China; INO = Indonesia; JPN = Japan; KOR = the Republic of Korea; MAL = Malaysia; PHI = the Philippines; SIN = Singapore; TAP = Taipei,China; THA = Thailand; USA = United States of America; VIE = Viet Nam. Other here refers to Bangladesh, Brunei Darussalam, Bhutan, Cambodia, Fiji, Kazakhstan, the Kyrgyz Republic, Lao People's Democratic Republic, the Maldives, Mongolia, Nepal, Pakistan, and, Sri Lanka.
Source: Staff calculations.

…and can be offset by *potential* redirection of trade and production.



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Source: Staff calculations.

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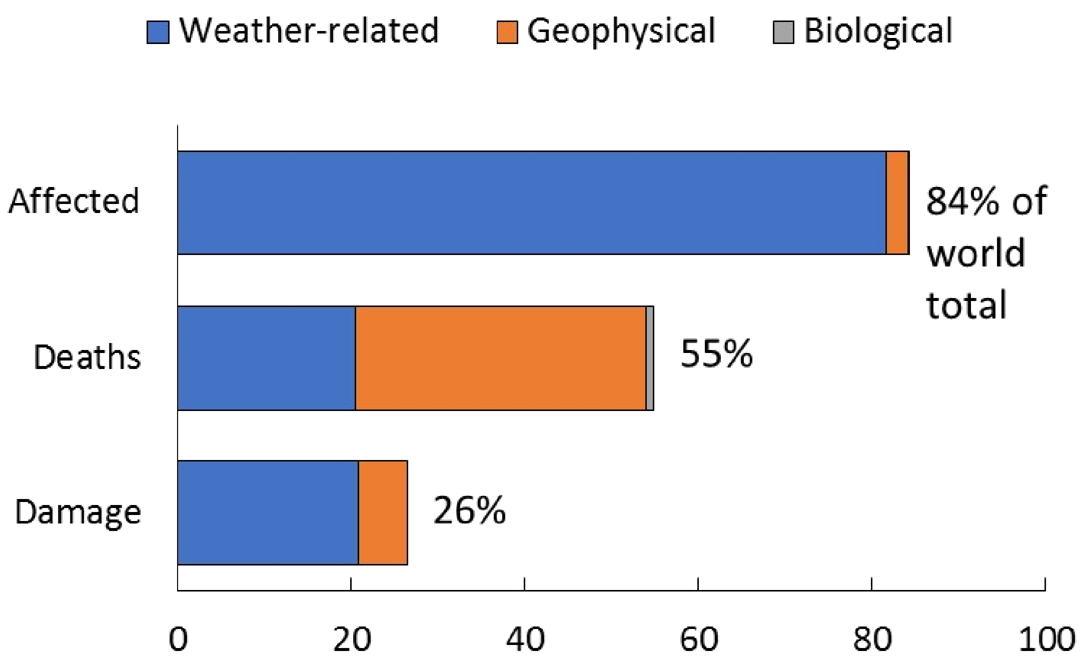
Theme Chapter:
Strengthening Disaster Resilience

Asia is particularly susceptible to disaster risk

Four in five people affected by natural hazards live in Asia…

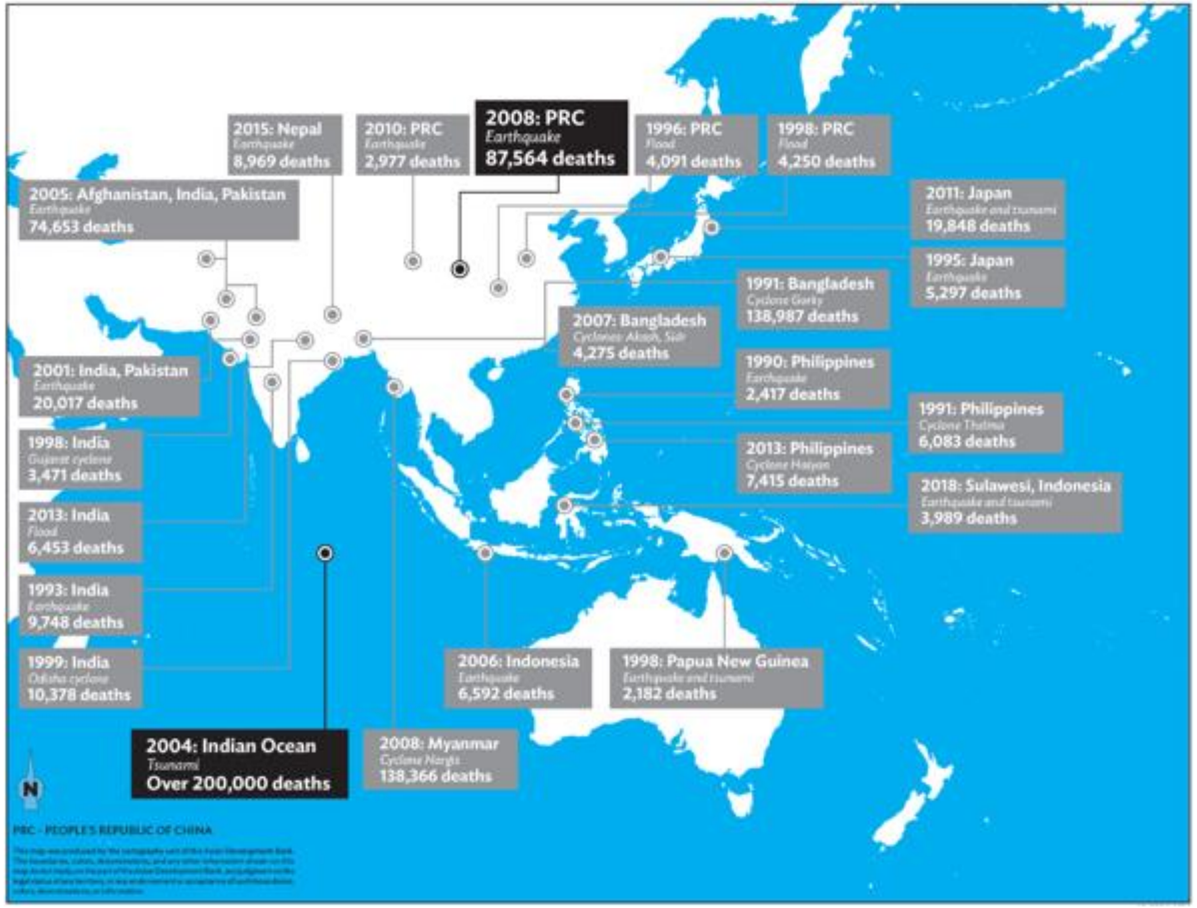
…and disasters from natural hazards occur across the region

Disaster impacts in developing Asia by type (2000–2018)



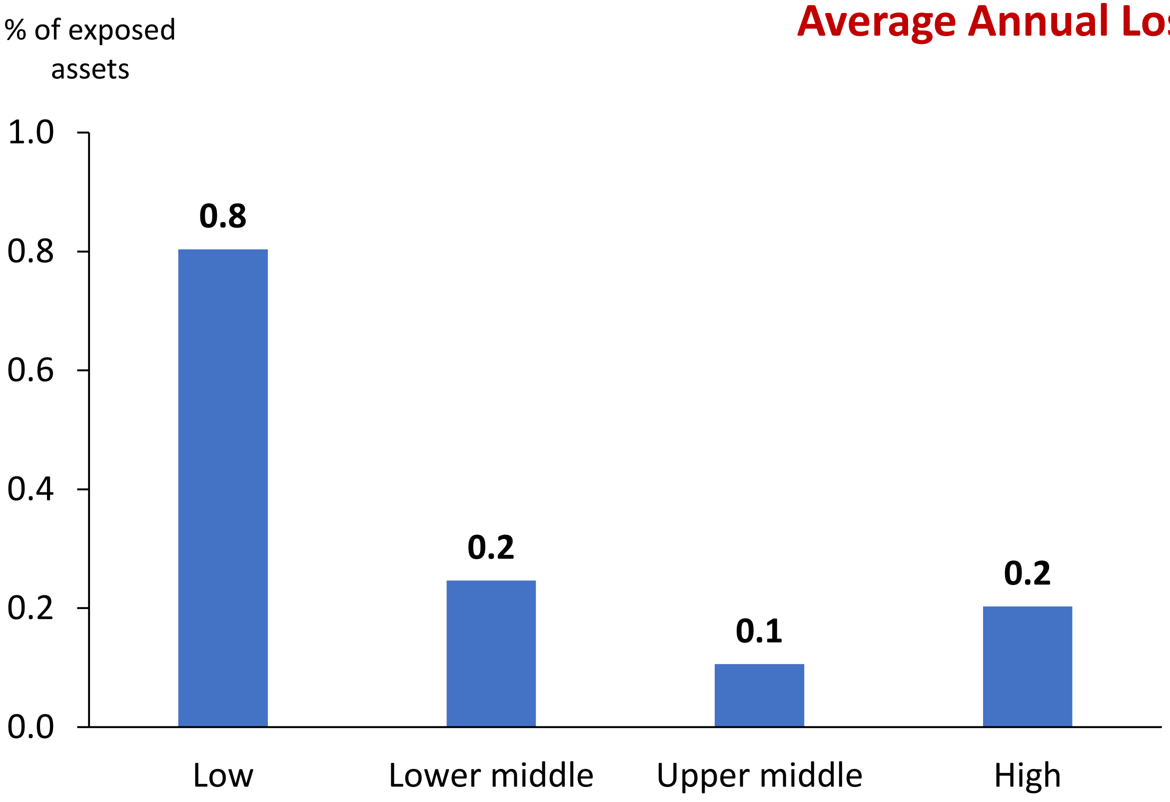
Source: EM-DAT

Highest death tolls from disasters in Asia since 1990

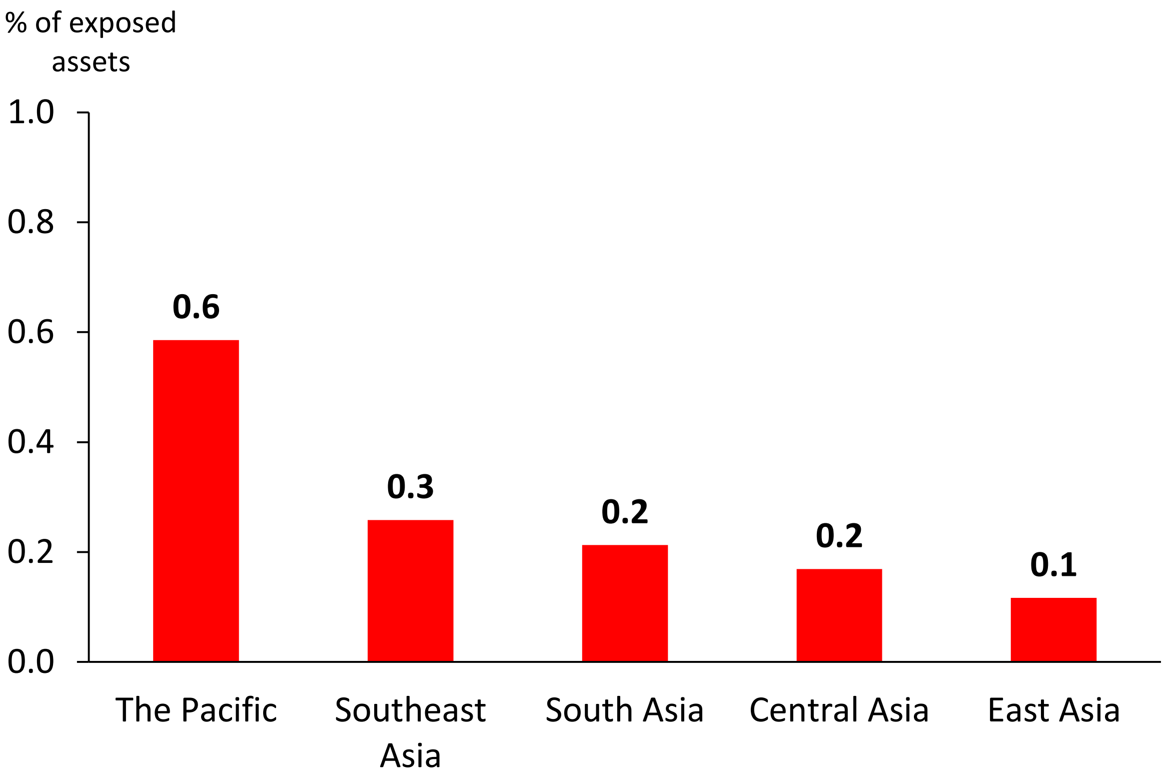


and disasters hit poor and small economies the hardest

Average Annual Losses in Developing Asia



By income



By region

Source: UNISDR 2015.

Disaster risks are rising because vulnerable populations are increasingly exposed to hazards…

Hazards

Exposure

Vulnerability

Direct

Mortality

Displacement

Asset damage

Indirect

Foregone economic activity

Spillovers

Time
- Industrial shifts
- Inter-generational

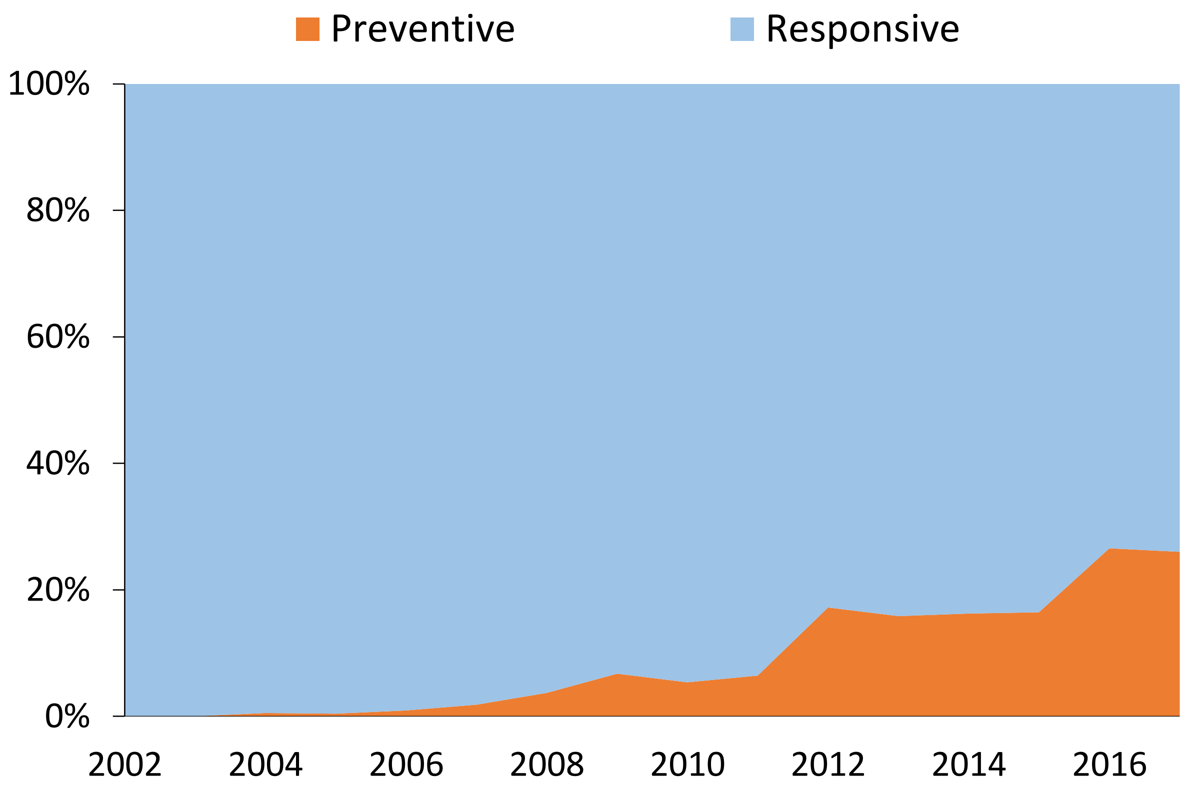
Space
- Supply chains
- Migration

…so what is needed to reduce impact is *strengthened disaster resilience*

Three keys to strengthening disaster resilience: #1. Mainstream disaster risk reduction

- **Integrate disaster resilience into development and investment plans (Sendai Framework for Disaster Risk Reduction)**
- **Increase spending on prevention vs. response**
- **Focus on preventive investments that can yield multiple dividends**

Humanitarian aid to Developing Asia



Source: OECD. Query Wizard for International Development Statistics.

#2. Take a risk-layered approach to disaster risk financing

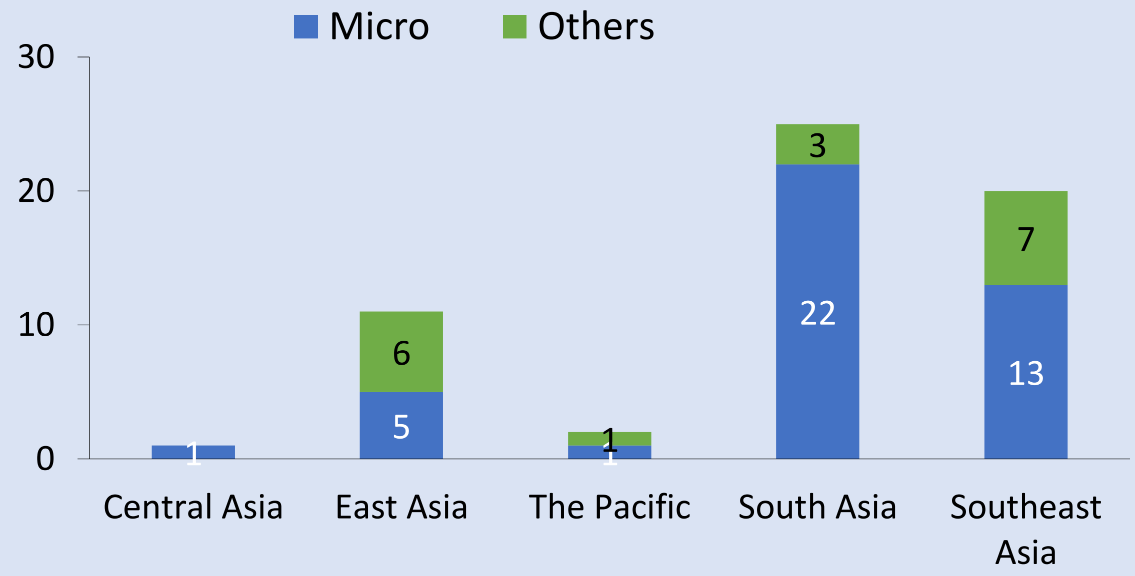
The middle layer of risk is most suited for transfer through disaster insurance…

…which is spreading across the region, but remains limited.

Layered approach to disaster risk financing

- ❑ Disaster risk cannot be eliminated entirely
- ❑ Risk retention vs. transfer

Disaster insurance programs



- ❑ Still limited: only 8% of losses are insured
- ❑ 80% of insurance programs are subsidized

Source: Surminski, Panda, and Lambert (forthcoming).

#3. Build Back Better (BBB) to enhance resilience

- BBB for a recovery that is not just complete, but superior to pre-disaster
  - Increased resilience
  - Revitalized livelihoods, economies, environment
- "Better" is Speed, Safety, Inclusiveness, Opportunity
- Speed must be balanced against the other objectives

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- 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
- Asia must strengthen its disaster resilience under growing risks posed by natural hazards

THANK YOU!

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