

The ADB logo consists of the letters 'ADB' in a white, serif font, centered within a dark blue square.

ADB

Economic Outlook and Progress of Regional Cooperation and Integration in Asia and the Pacific

A stylized globe in shades of blue and cyan, overlaid with a network of glowing lines and dots representing global connectivity. The globe is positioned on the right side of the slide, partially overlapping the title text.

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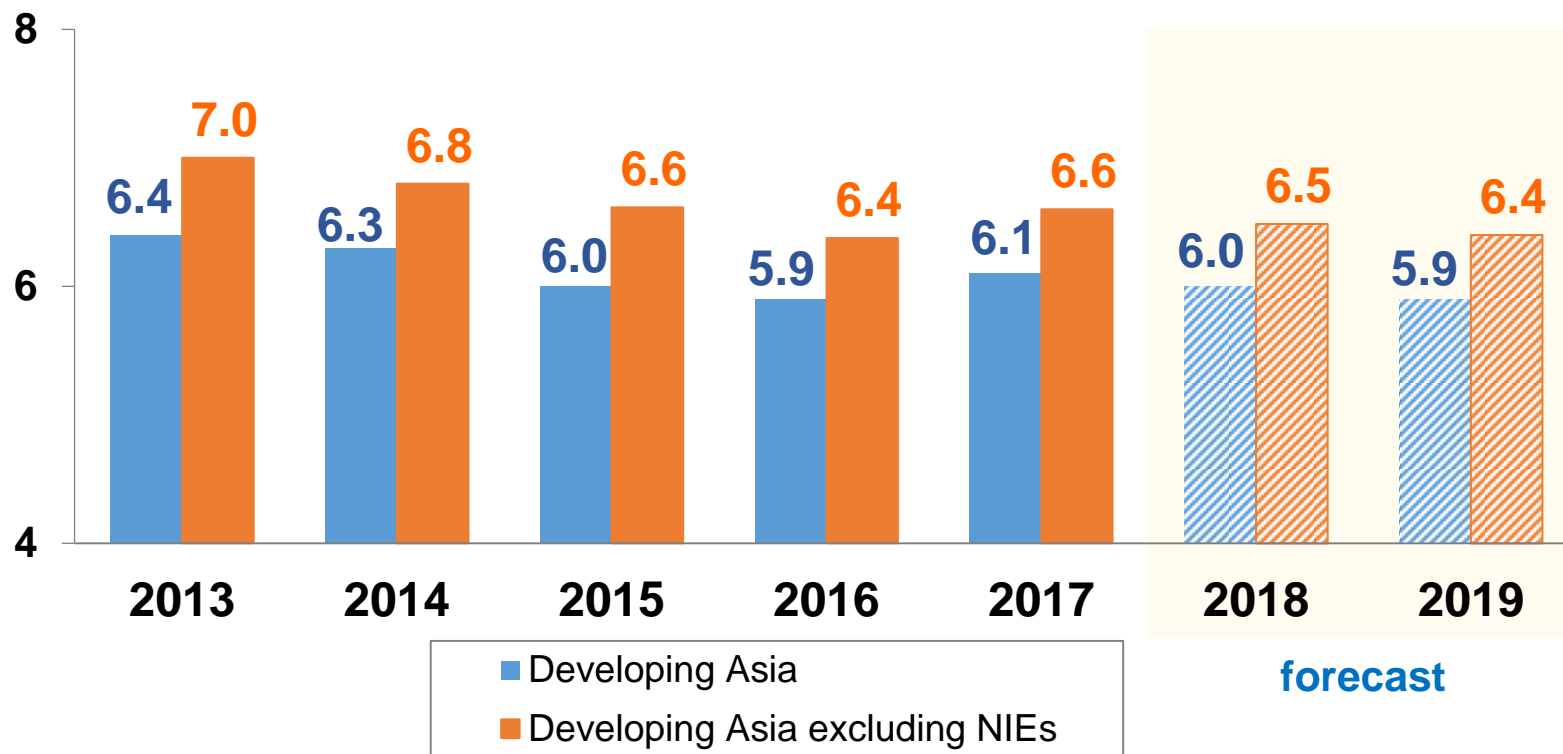
ADB-Asia Think Tank Development Forum 2018:
“Upgrading Human Capital and Skills Development for Future Asia”
22 August 2018 | Australia National University, Canberra

Key messages

- Developing Asia to continue solid growth at 6.0% in 2018 and 5.9% in 2019
- PRC growth moderates with greater focus on financial stability; India rebounds from temporary reform related setbacks
- Key risks stem from escalating trade tensions, rising US interest rates, and accumulating domestic private debt
- Heightened global financial interconnectedness poses risks to financial stability

Developing Asia's growth to remain solid

GDP growth (%)



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

Source: Asian Development Outlook database.

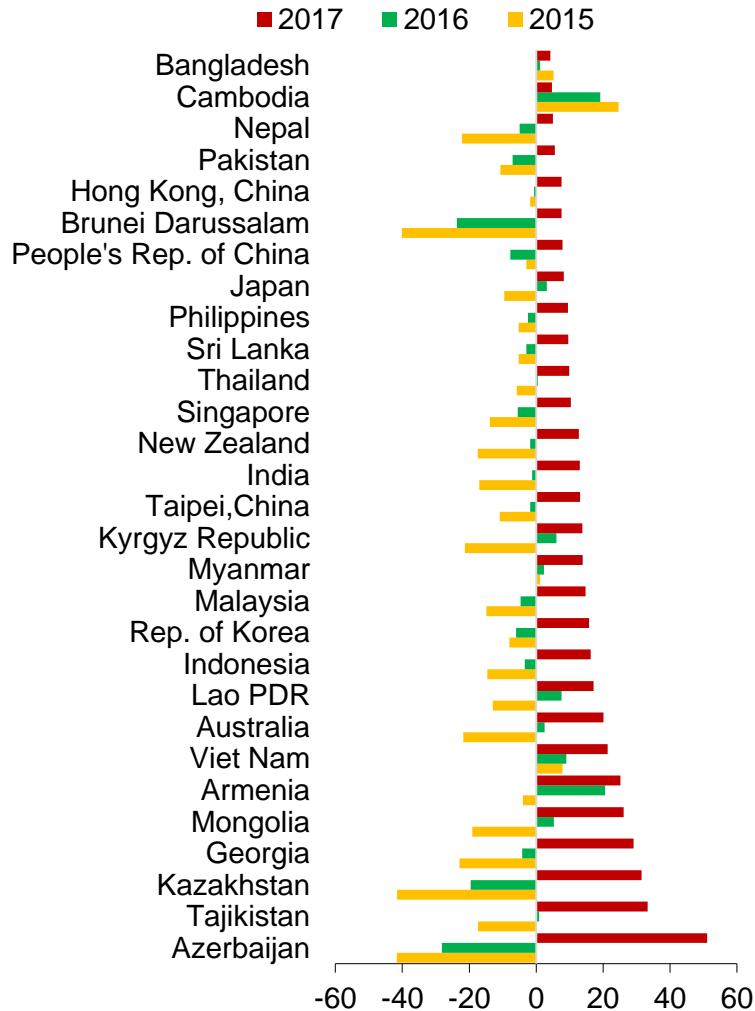
... amid continued robust growth in major advanced economies

GDP growth (%)	2017 Actual	2018 projection	2019 projection
Major industrial economies ^a	2.3	2.3	2.0
United States	2.3	2.7	2.4
Euro area	2.6	2.2	1.9
Japan	1.7	1.1	1.0

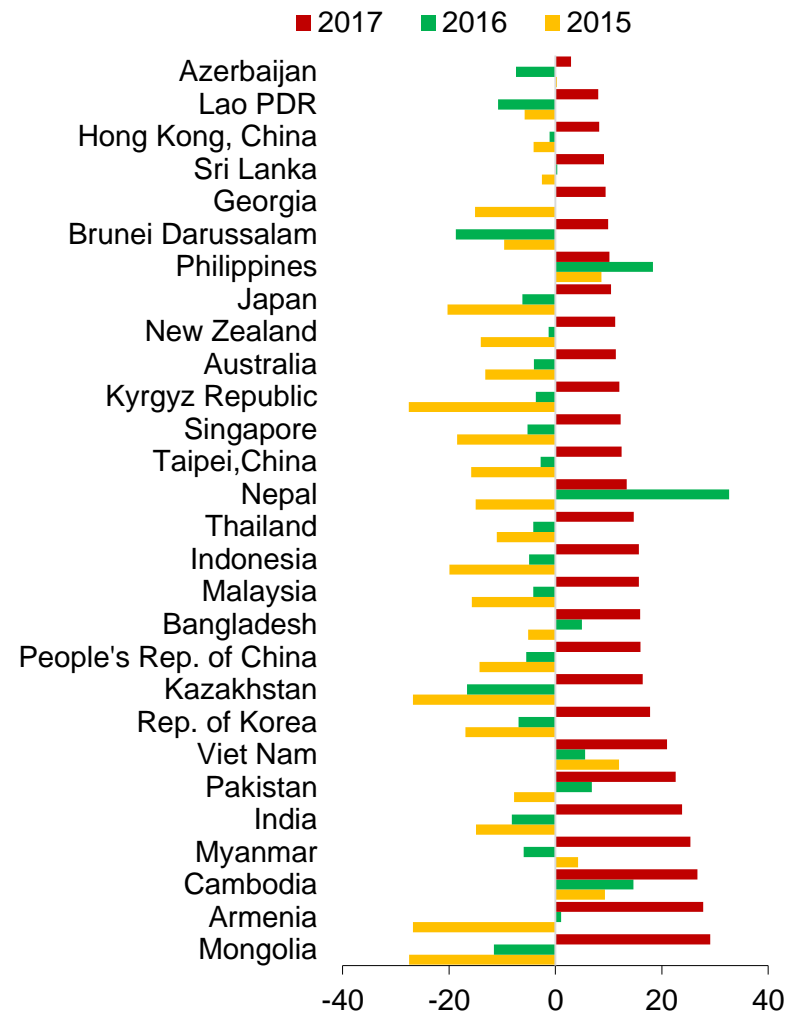
^a Average growth rates are weighed by gross national income, Atlas method.
Source: ADB, Asian Development Outlook Supplement July 2018.

Synchronized trade resurgence

Growth in nominal exports



Growth in nominal imports

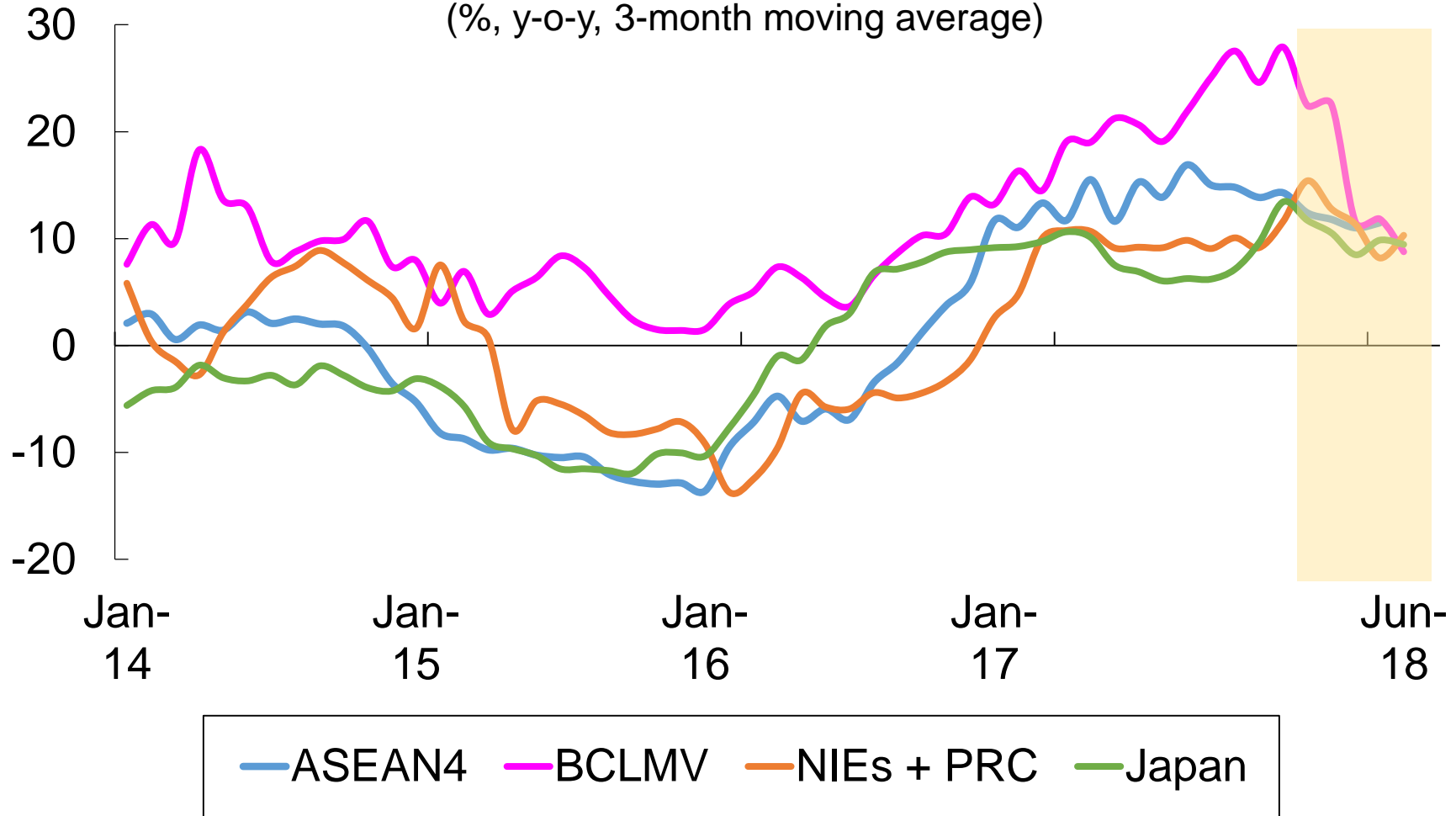


Sources: CEIC Data Company (accessed August 2018).

Trade recovery expected to moderate

Nominal Export Growth

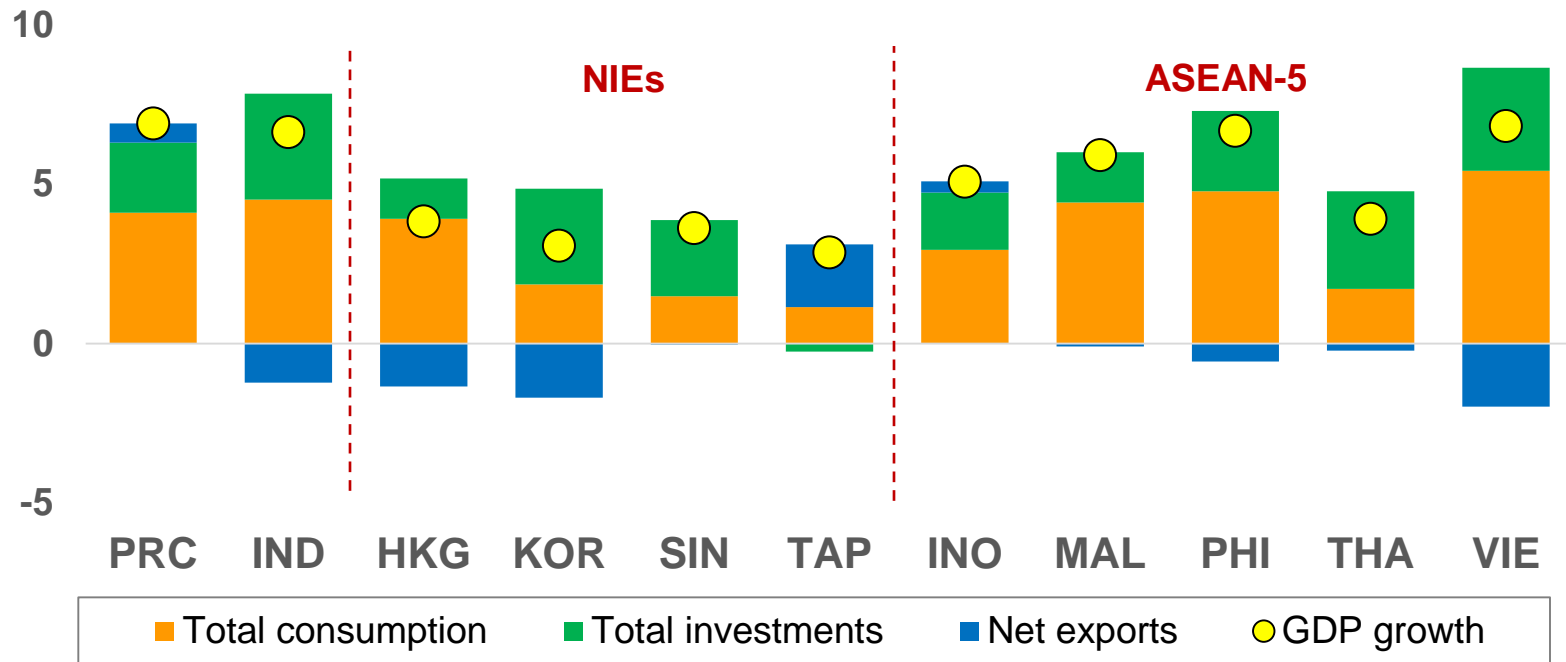
(%, y-o-y, 3-month moving average)



Domestic demand still the main growth driver...

Demand-side contributions to growth, selected economies, 2017

Percentage points

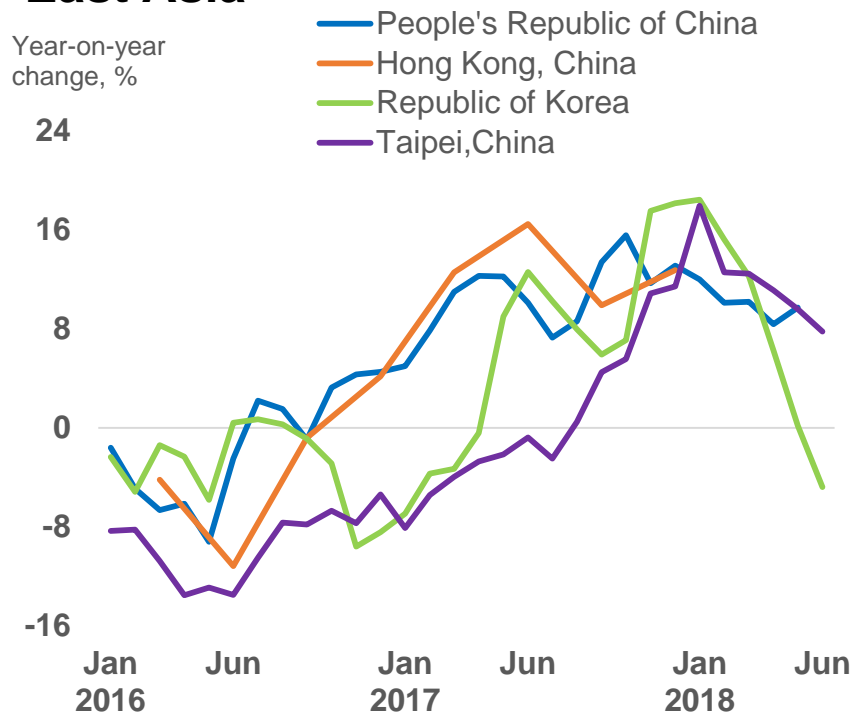


Notes: ASEAN = Association of Southeast Asian Nations; NIEs = newly industrialized economies; GDP = gross domestic product; HKG = Hong Kong, China; IND = India; INO = Indonesia; KOR = Republic of Korea; MAL = Malaysia; PHI = the Philippines; PRC = People's Republic of China; SIN = Singapore; TAP = Taipei, China; THA = Thailand. IND data refers to H1 FY2017. Components do not add up to total due to a statistical discrepancy.

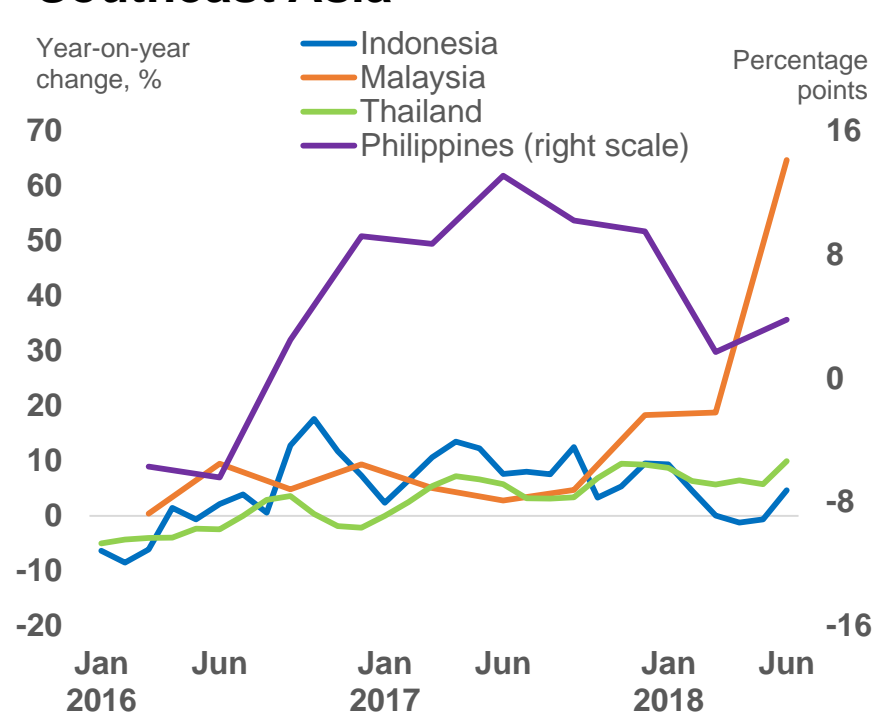
...and strong consumption set to continue

Consumer confidence index, % change

East Asia



Southeast Asia



Notes: Data for Hong Kong, China; Malaysia and Philippines are on a quarterly basis. For the Philippines, the index refers to consumer expectations, computed as the percentage of households that answered in the affirmative less the percentage of households that answered in the negative. A positive (negative) CEI indicates a favorable (unfavorable) view.

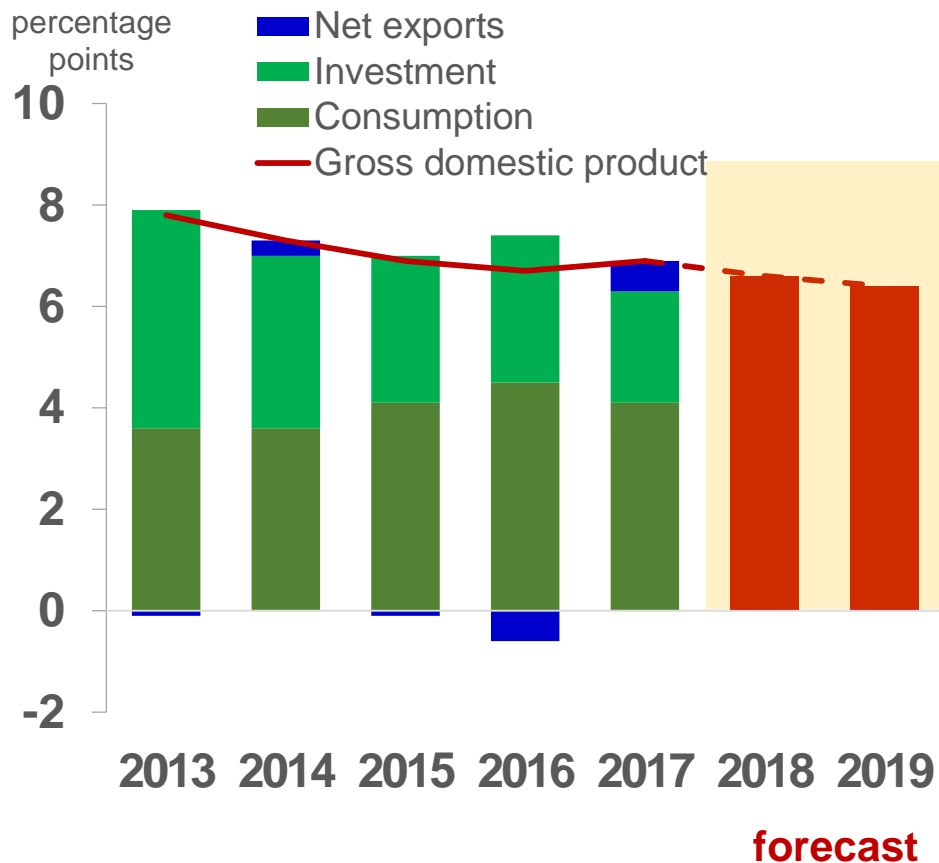
Source: Haver Analytics; CEIC Data Company (accessed 13 August 2018).

2018 and 2019 should consolidate gains

	2017 Actual	2018 Forecast	2019 Forecast		2017 Actual	2018 Forecast	2019 Forecast
East Asia	6.3	6.0	5.8	South Asia	6.5	7.0	7.2
China, People's Rep. of	6.9	6.6	6.4	India	6.7	7.3	7.6
Hong Kong, China	3.8	4.0	3.0				
Korea, Rep. of	3.1	3.0	2.9	Central Asia	4.3	4.2	4.3
Taipei, China	2.9	3.0	2.8	Kazakhstan	4.0	3.7	3.9
Southeast Asia	5.2	5.2	5.2	The Pacific	2.2	2.2	3.0
Indonesia	5.1	5.2	5.3				
Malaysia	5.9	5.3	5.0				
Philippines	6.7	6.8	6.9				
Singapore	3.6	3.1	2.9	Developing Asia	6.1	6.0	5.9
Thailand	3.9	4.2	4.1				
Viet Nam	6.8	7.1	6.8	Excluding NIEs	6.6	6.5	6.4

PRC growth will sustain moderation in favor of reforms

Demand-side contributions to growth



- **Growth will dampen over 2018–2019 as planned**
- **Government priorities to improve quality of growth:**
 - 1 Heading off financial risks
 - 2 Controlling environmental pollution
 - 3 Targeted intervention to eliminate poverty

Downside risks to the outlook

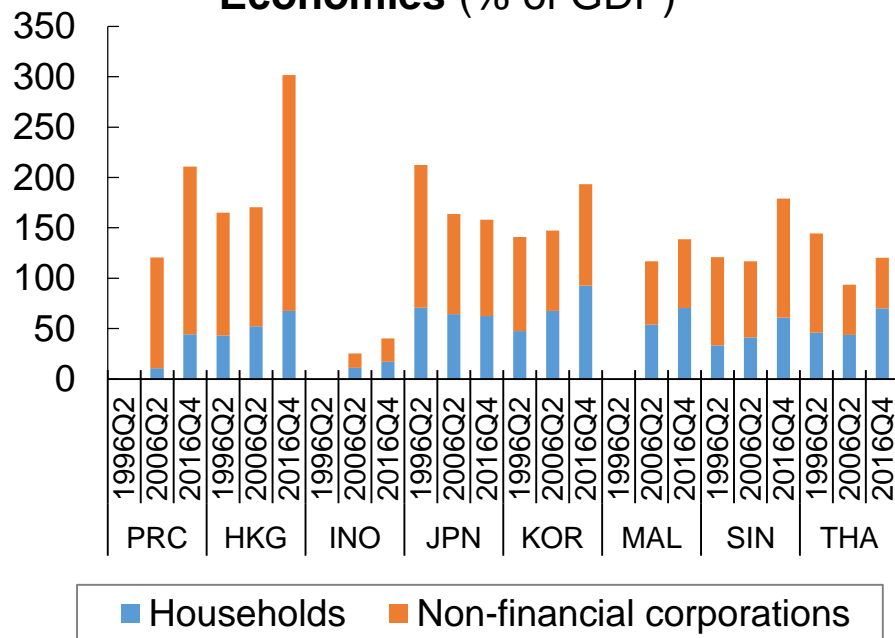
- Escalation of trade tensions
- Interest-rate induced capital flow shifts
- Impact of private debt and leverage on growth

Improved fiscal and financial positions bolster developing Asia's resilience to shocks

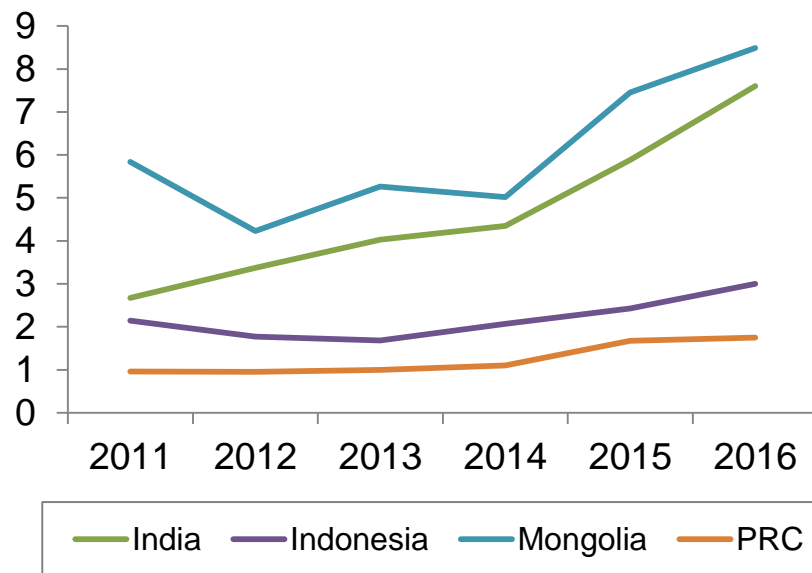
Potential domestic financial risks

- **Elevated private debt and leverage** driven by an extended period of easy monetary policy and global liquidity
- **Deteriorating bank assets**—with potential spillover to real economy

Credit to Private Sector—Selected EMEAP Economies (% of GDP)







NPL Ratios of Selected Asian Economies (%)



Asia's regional integration deepens

Intraregional Shares—Asia and the Pacific (% of total)

	Trade 	FDI 	Equity 	Debt 
2001	53%	47%	12%	8%
2017	58%	53% (2016)	19%	16%

FDI = foreign direct investment (flows data); Equity = equity asset holdings (stock data); Debt = debt asset holdings (stock data).

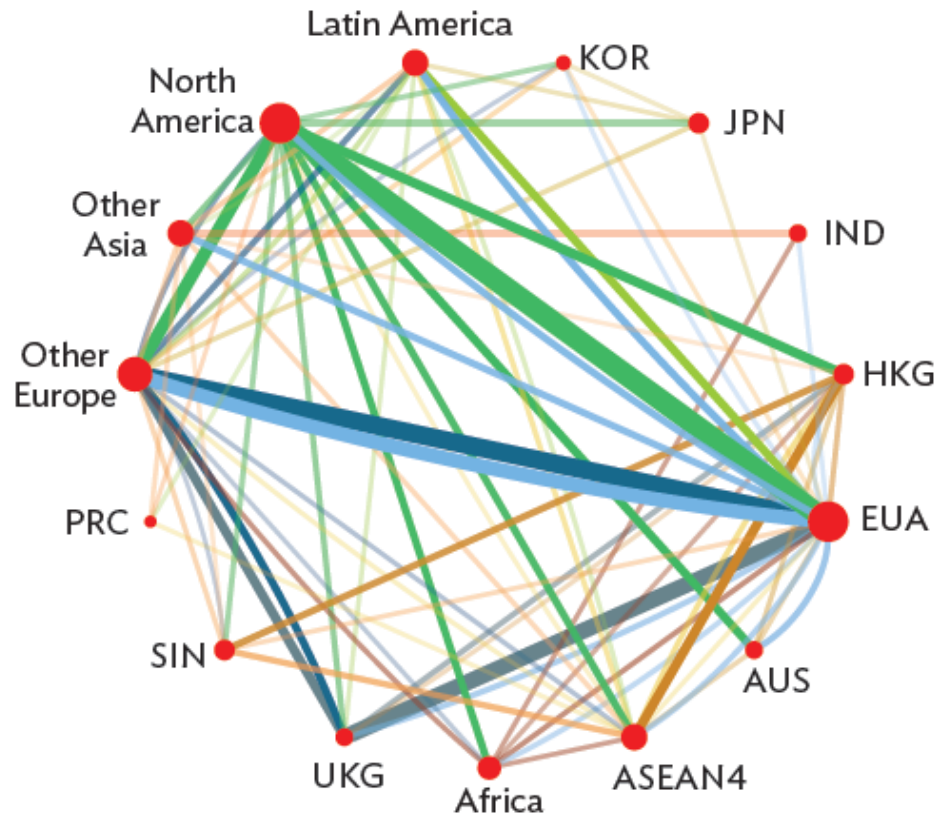
Note: Asia and the Pacific includes ADB's 45 regional developing members plus Australia, Japan, and New Zealand, where data is available.

Source: ADB, *Asian Economic Integration Report database*.

Global financial market interconnectedness intensifies

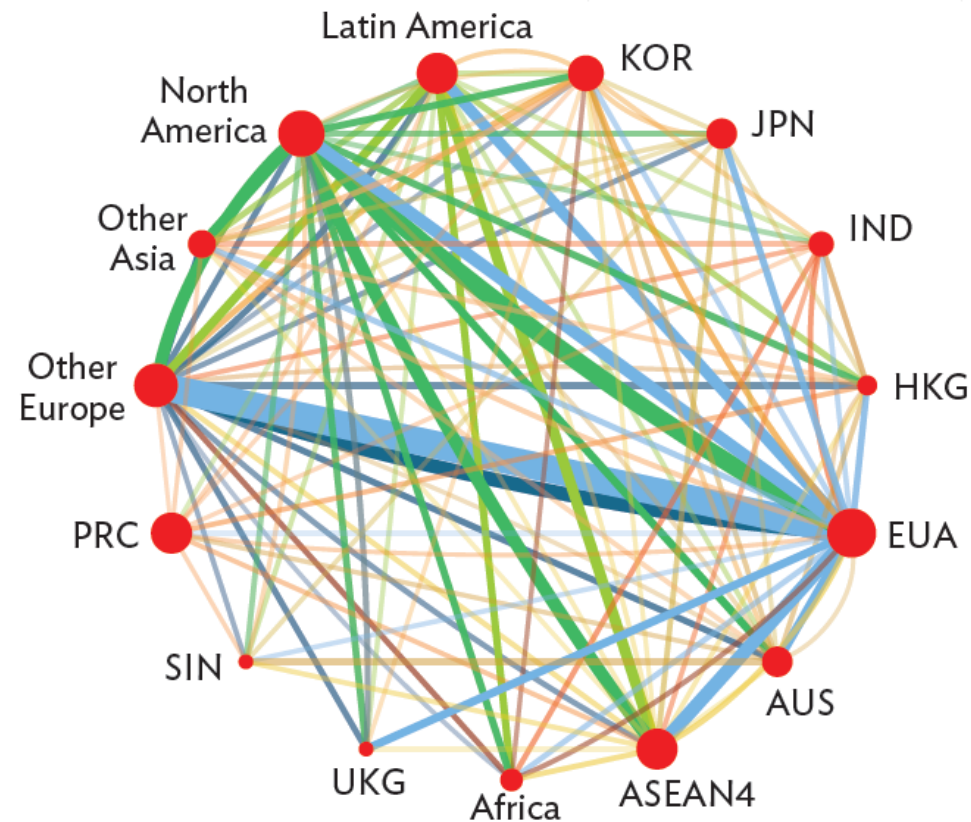
Pre- AFC

(1 Mar 1995–1 Jul 1997)



Post-GFC

(1 Apr 2010–30 Dec 2016)



Banking network can transmit shocks across borders

Impact of direct and indirect banking exposures to the crisis-affected countries on capital outflows during the GFC

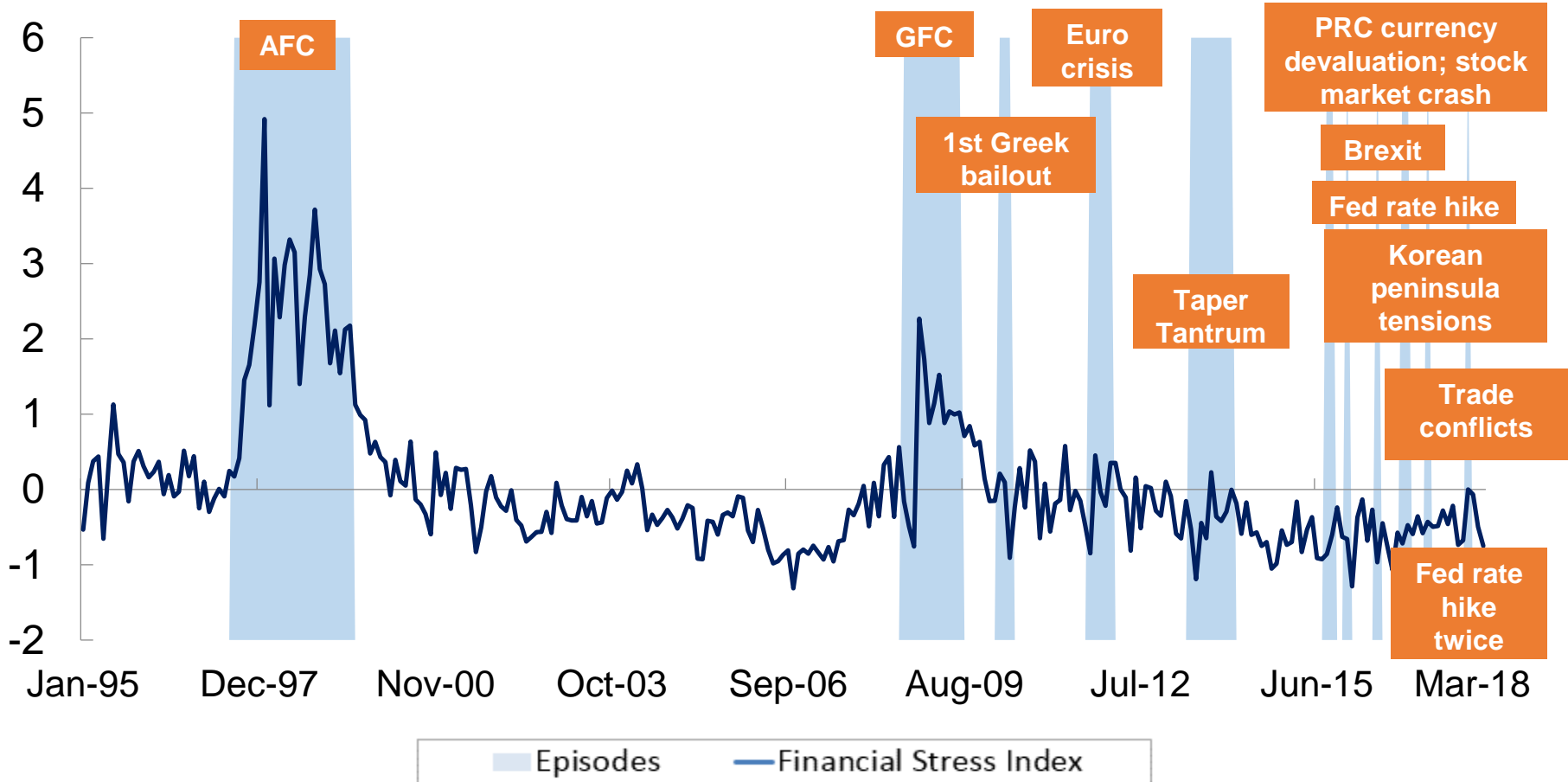
Variables	Without Control Variables		With Control Variables	
	(1) Outflows	(2) Outflows	(3) Outflows	(4) Outflows
Direct exposure of banking sector	0.257*** (0.075)	0.282*** (0.078)	0.228** (0.085)	0.253*** (0.086)
Indirect exposure of banking sector		0.722** (0.285)		0.359 (0.269)

*** = significant at 1%, ** = significant at 5%. Robust standard errors in parenthesis. Coefficients for the control variables are not shown for brevity.

Source: Park and Shin (2017).

Investors too complacent toward risk?

ADB Financial Stress Index—Asia



AFC = Asian financial crisis, GFC = global financial crisis, PRC = People's Republic of China, US = United States.

Note: Based on (i) banking sector price index, (ii) sovereign yield spreads, (iii) stock market volatility, (iv) stock price index and (v) exchange market pressure index and using the principal components analysis

Source: ADB calculations using data from Bloomberg, CEIC, and Haver Analytics (accessed 19 June 2018).

Policy considerations

- ☑ Further develop LCY bond markets for long-term finance and greater financial resilience
- ☑ Urgently strengthen macroprudential regulation and supervision
- ☑ Enhance regional financial cooperation to address growing financial interconnectedness
- ☑ Time to review and strengthen existing financial safety nets