

**7<sup>th</sup> OECD-AMRO-ADB/ADBI-ERIA  
Asian Regional Roundtable**

***Session 4:***  
**Building Capacity and Connectivity  
in ASEAN+3 Economies**

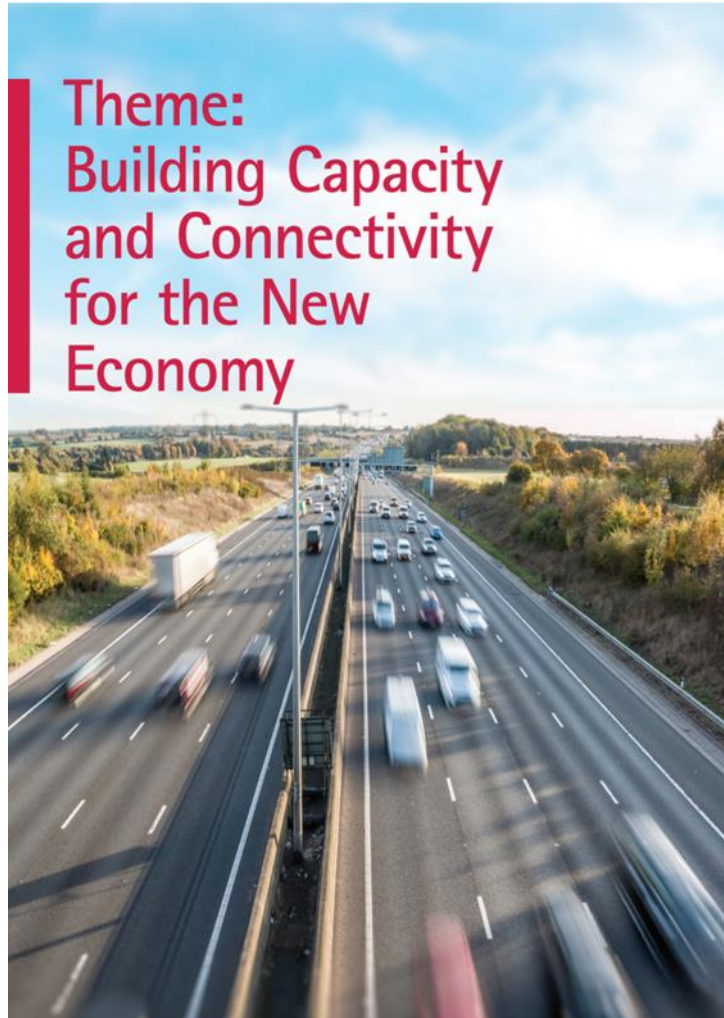
**Lam San Ling, AMRO Consultant  
19 June 2019**

## 7<sup>th</sup> OECD-AMRO-ADB/ADBI-ERIA Asian Regional Roundtable

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- AMRO AREO 2019 thematic chapter - highlights
  - *capacity and connectivity – hard & soft infrastructure*
  - *key drivers*
  - *gaps, challenges*
  
- Policy options: towards a more integrated and connected ASEAN+3
  
  
  
  
  
  
  
  
  
  
- Discussion

- AMRO AREO 2019 thematic chapter - highlights
  - *capacity and connectivity – hard & soft infrastructure*
  - *key drivers*
  - *gaps, challenges*
  
- Policy options: ASEAN+3 for ASEAN+3 - ***do we have a choice, really?***
  - *are they "no regrets" policies?*
  - *what are possible downsides?*
  - *issues to ponder...*
  
- Summary & Discussion



# ASEAN+3 Regional Economic Outlook (AREO) 2019

*~ highlights ~*

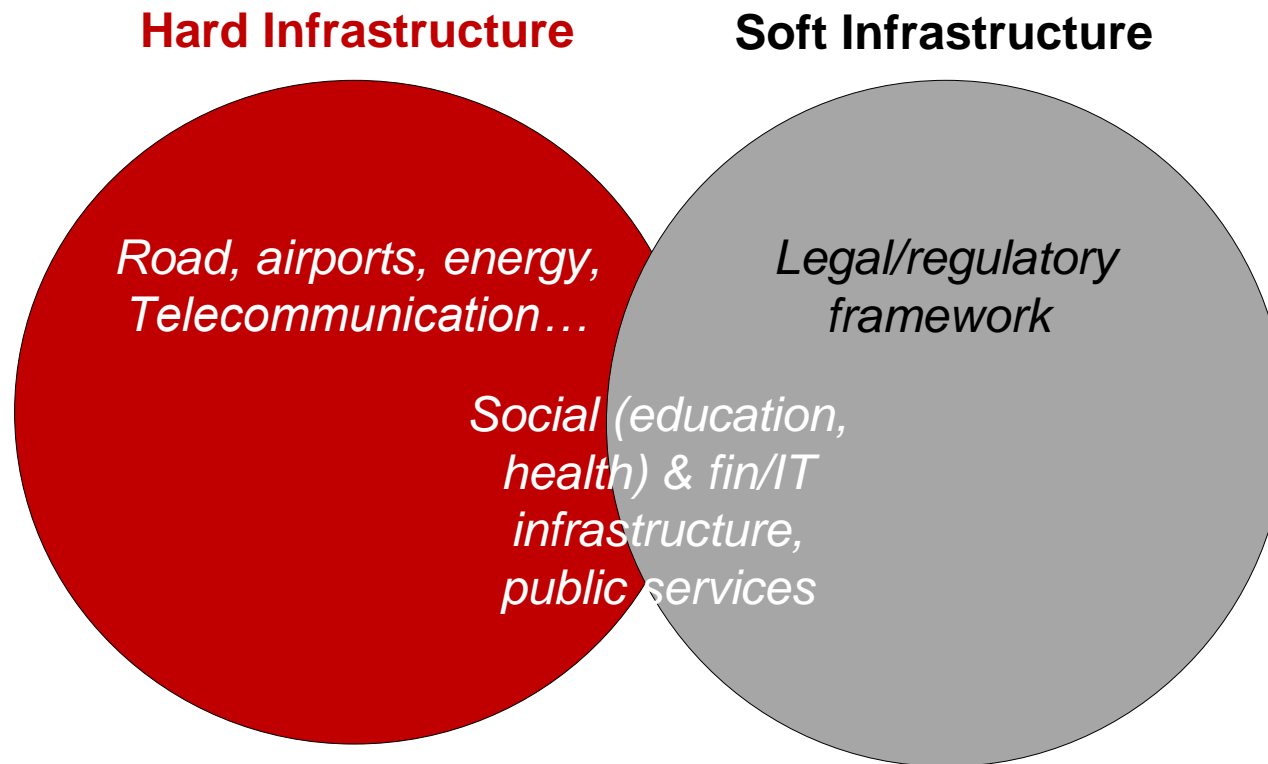
- 2017 narrative of **economic consolidation and rebalancing** after AFC
- 2018 message of **resilience and growth**

*2019 theme: building capacity and connectivity  
for the new economy*

## 2019 AREO thematic chapter

- 2017 narrative of economic consolidation and rebalancing after AFC
- 2018 message of resilience and growth

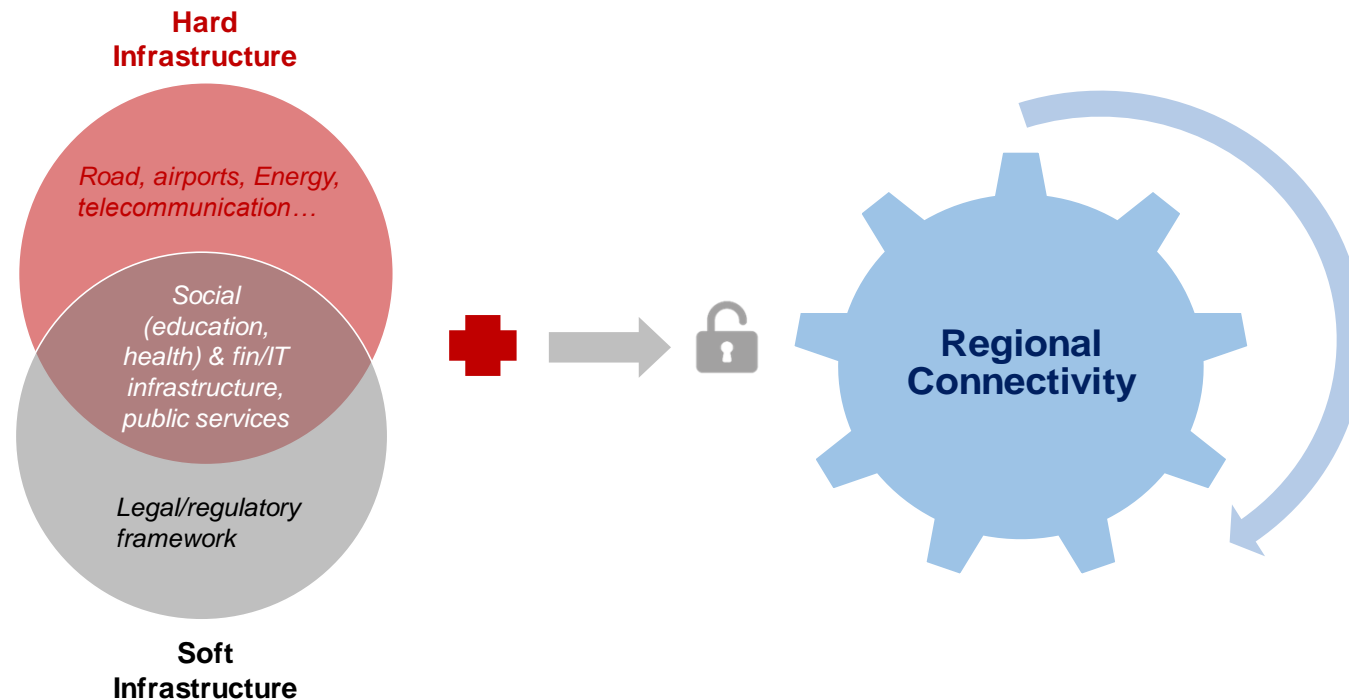
2019 theme: building **capacity and connectivity**  
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## 2019 AREO thematic chapter

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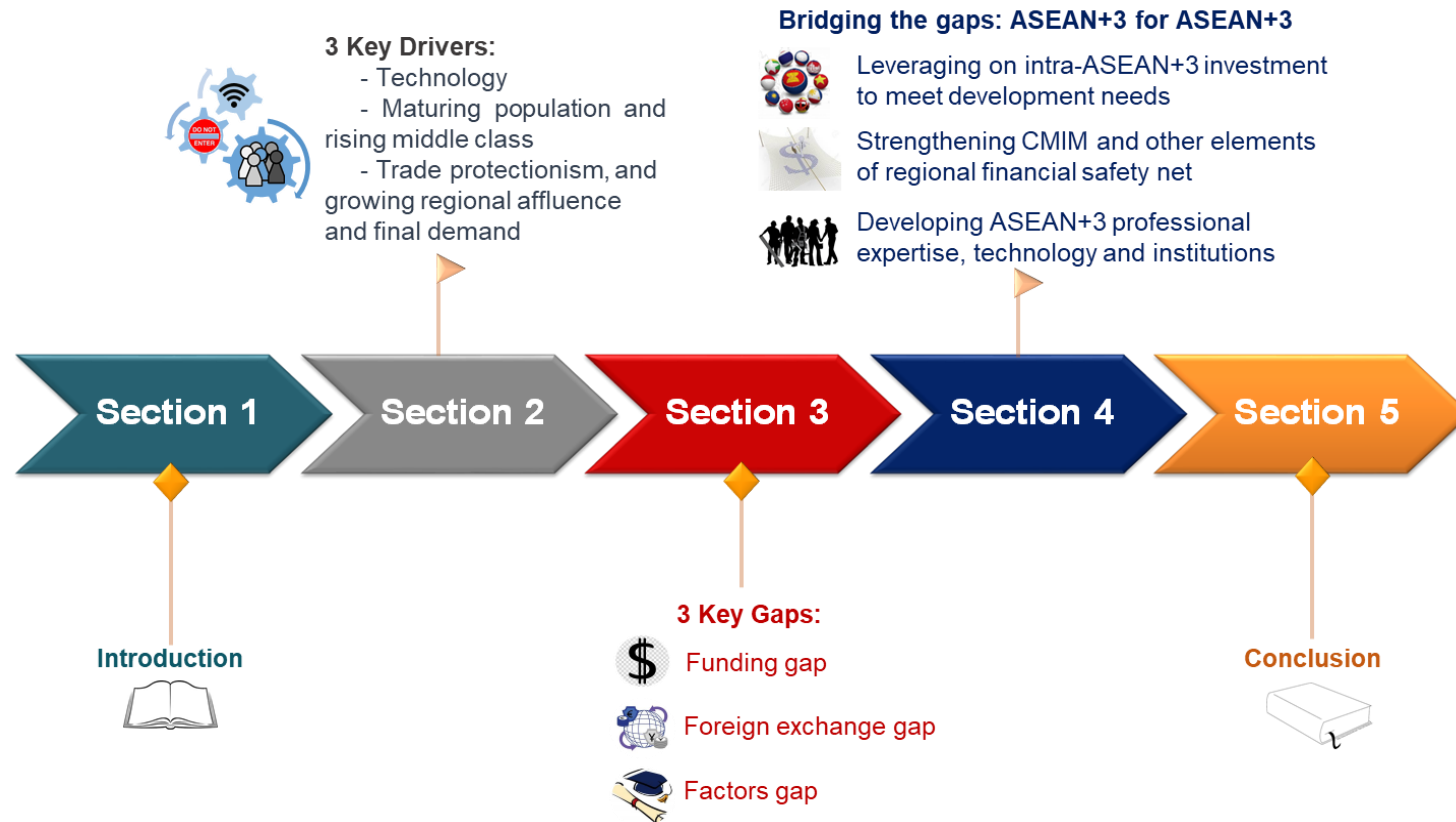




# 2019 AREO thematic chapter

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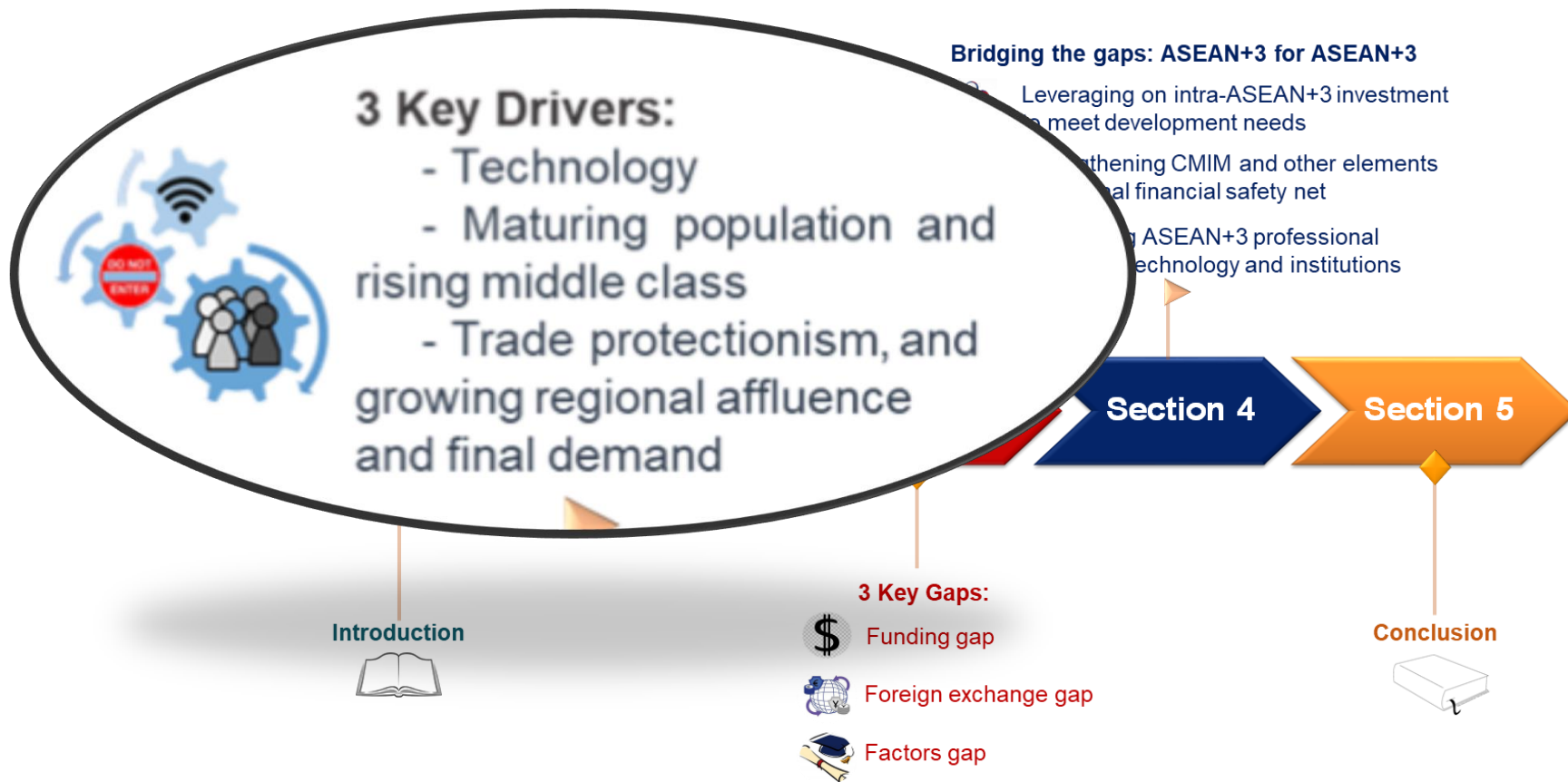
## 2019 highlights



# 2019 AREO thematic chapter - drivers

- 2017 narrative of economic consolidation and rebalancing after AFC
- 2018 message of resilience and growth

## 2019 highlights



# 2019 AREO thematic chapter - drivers

- [Push] Rising protectionism ("*brazen unilateralism*") even as...
- [Pull] Consumers (final demand), and global economic gravity, shift east
- New Economy, services

**Push**

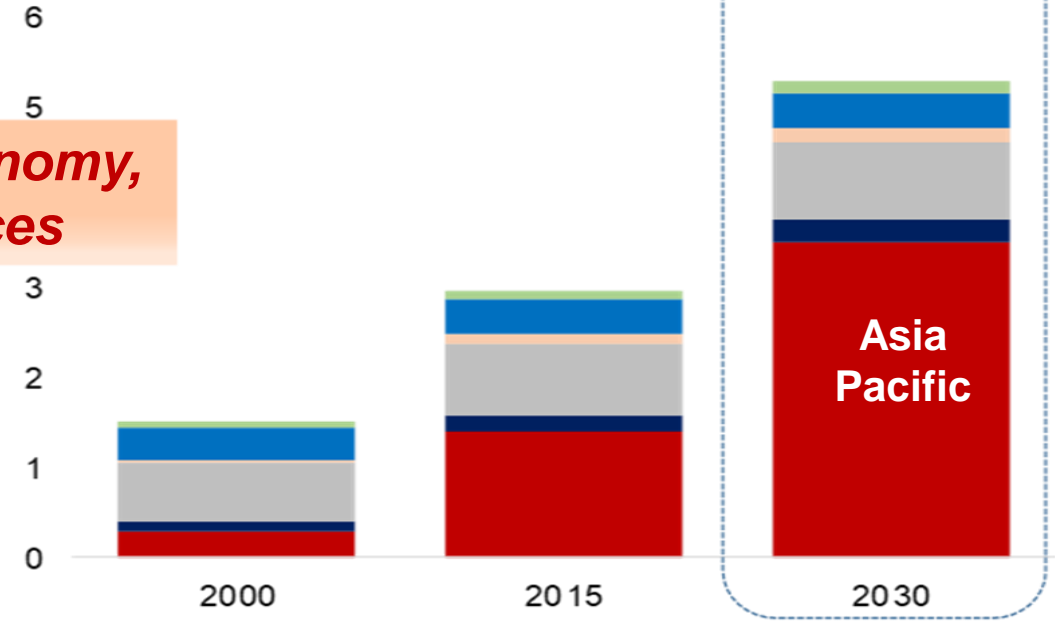


**Brazen Unilateralism:**  
The US-China Tariff War in Perspective  
The 23rd Global Trade Alert Report  
by Simon J. Evenett and Johannes Fritz

Source: Global Trade Alert

**New economy,  
services**

**Middle Class Population (billion)**

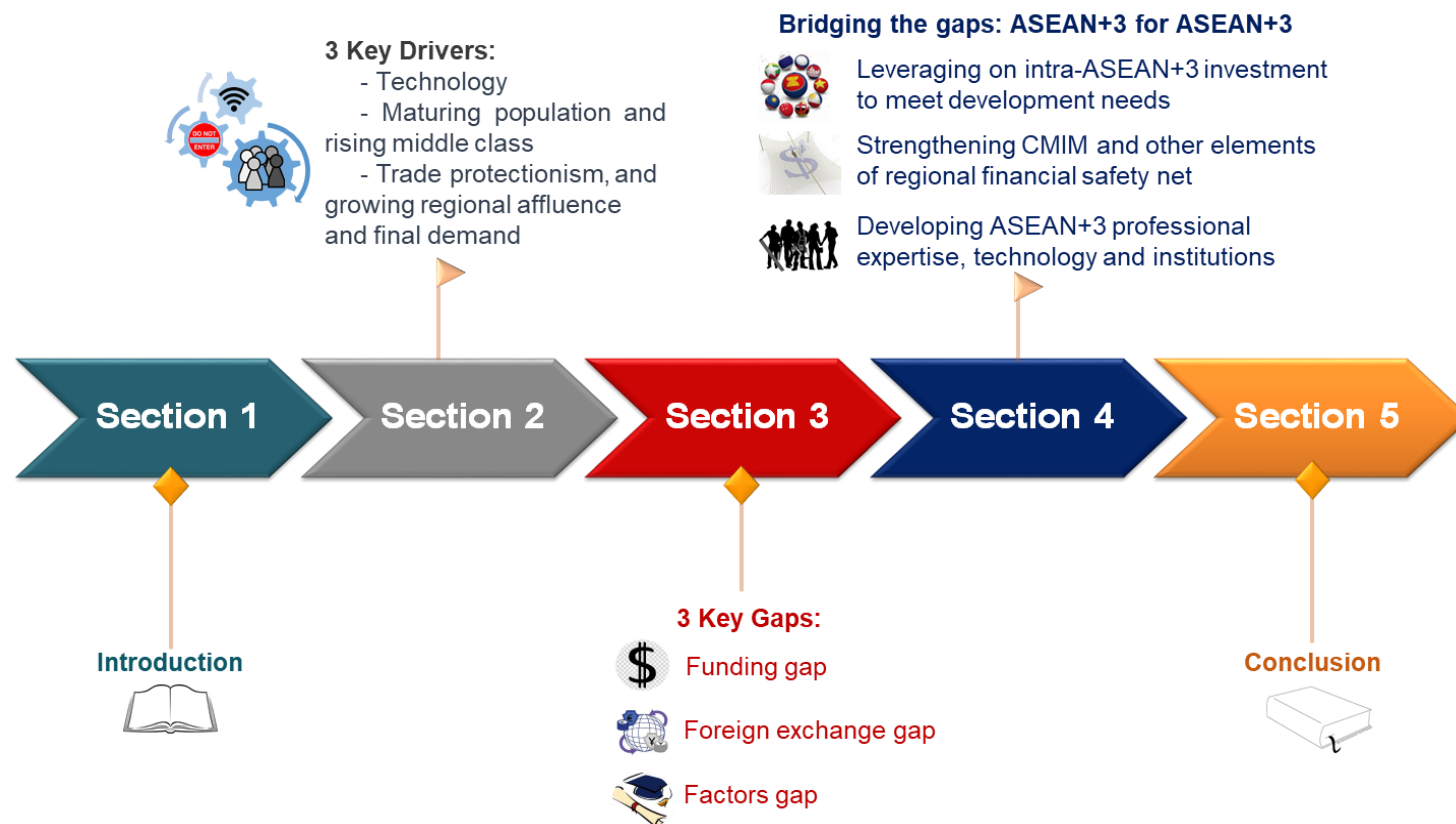


Source: Kharas 2017 (from AREO 2019)

# 2019 AREO thematic chapter

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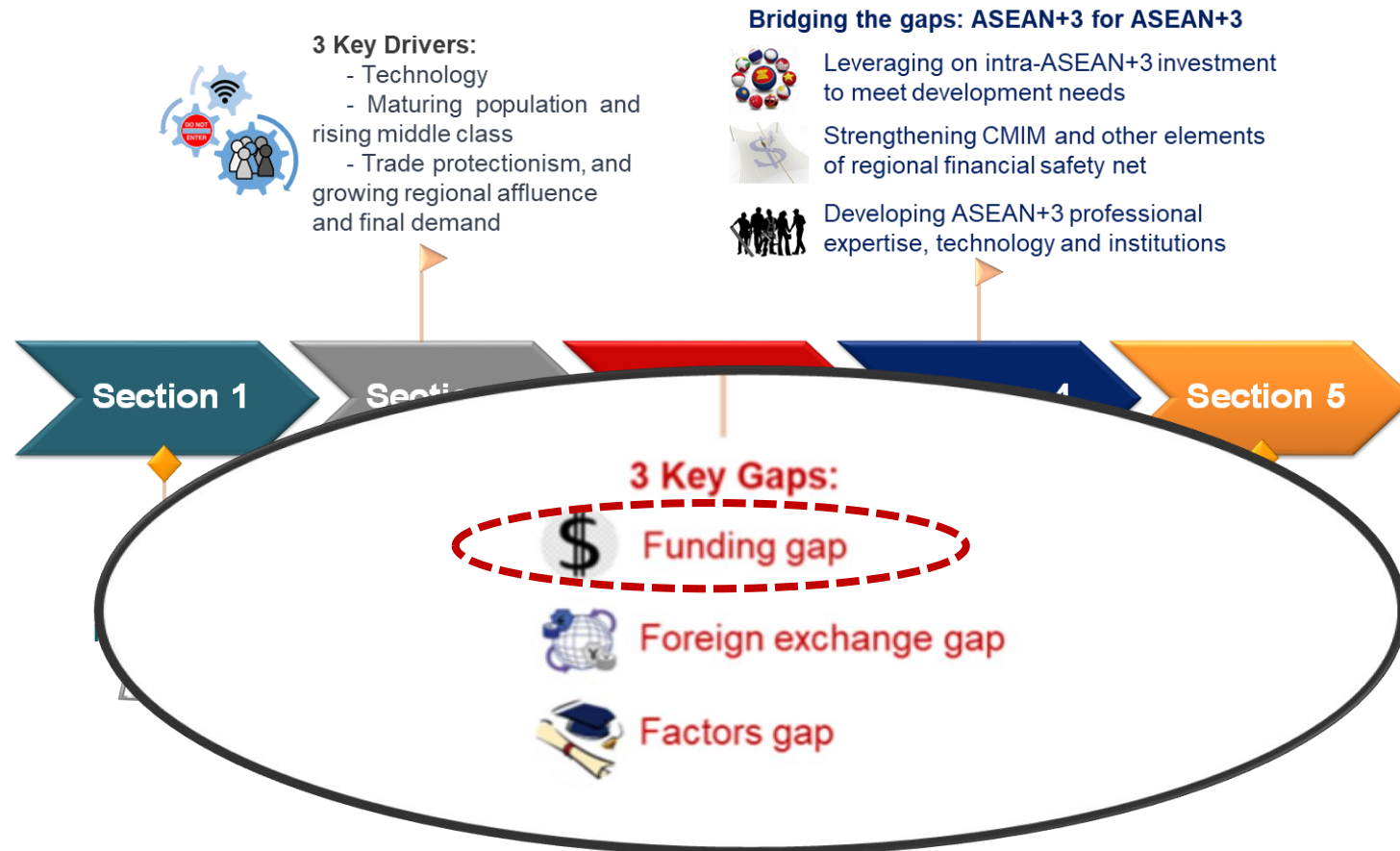
## 2019 highlights



# 2019 AREO thematic chapter – gaps (funding, FX, factors)

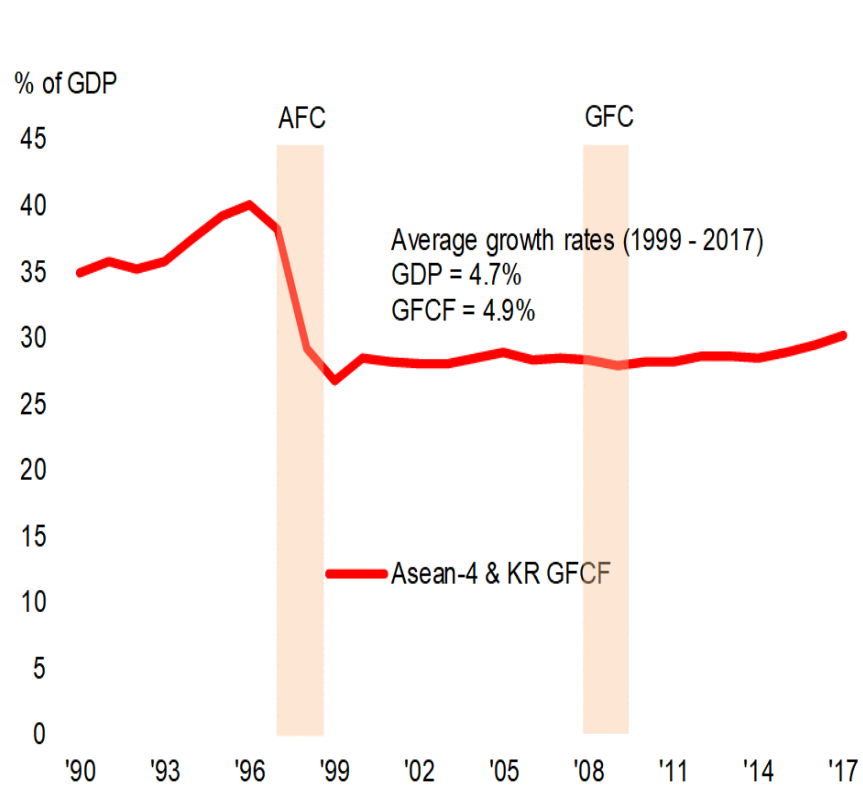
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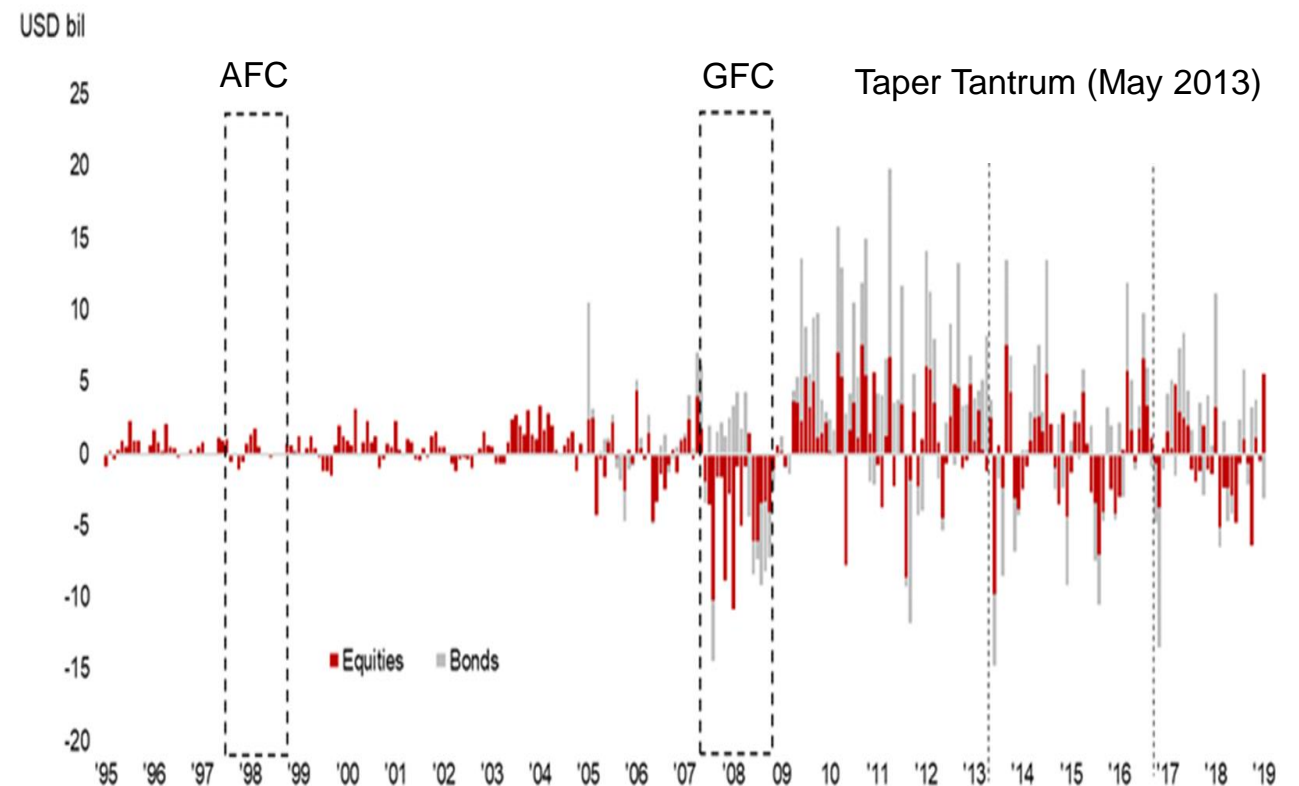


# 2019 AREO thematic chapter – gaps (funding, FX, factors)

- Under-investment in infrastructure (capacity and connectivity) – will impinge on growth
- Financial stability risks – hence, CA surpluses, reserves



Sources: World Bank; and AMRO staff calculations (from AREO 2019)

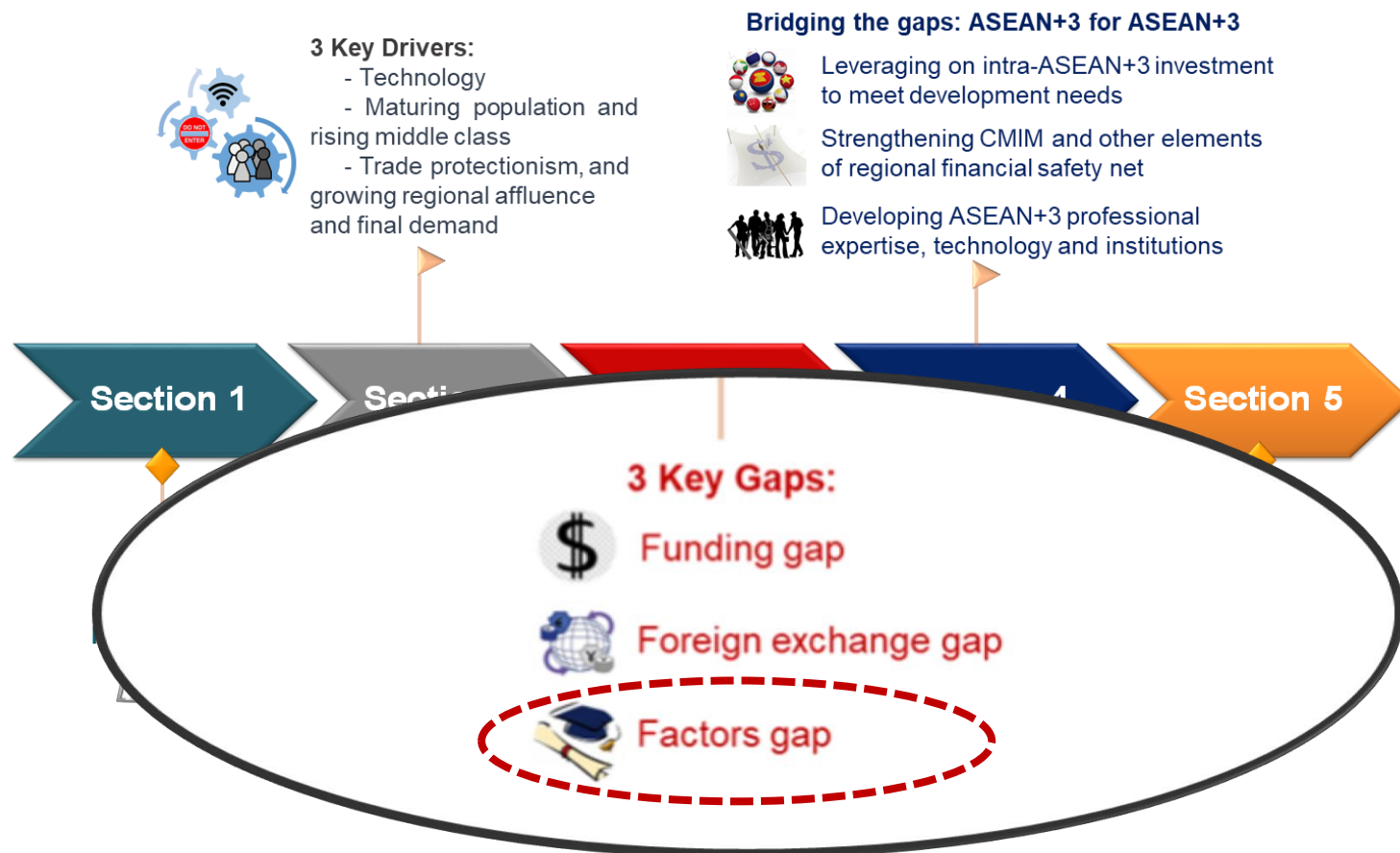


Source: National Authorities; AMRO staff calculations (from AREO 2019)

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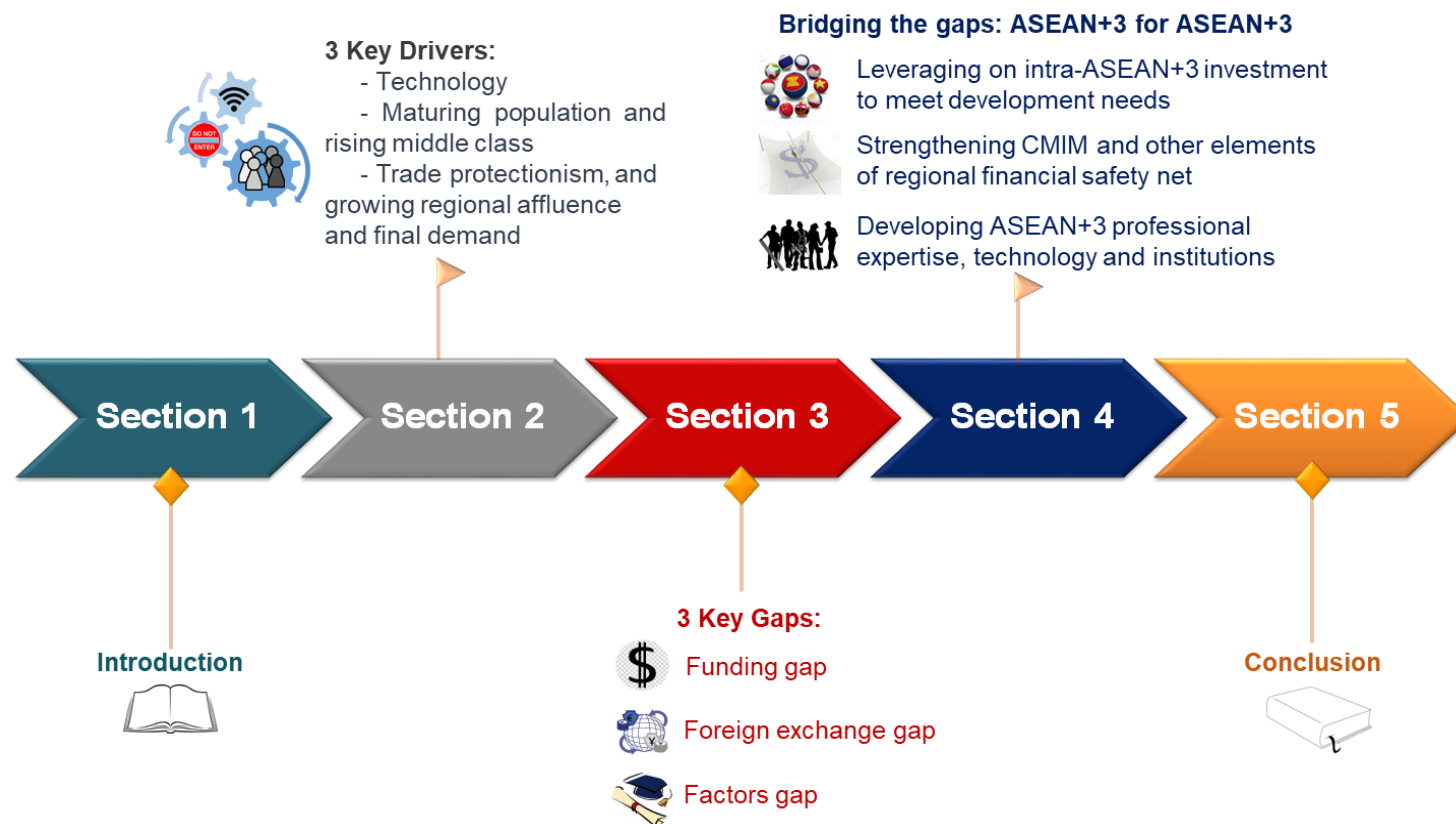
## 2019 highlights



# 2019 AREO thematic chapter

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## 2019 highlights





# 2019 AREO thematic chapter – bridging the gaps

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- 2018 message of resilience and growth

## 2019 highlights



## 2019 AREO thematic chapter – bridging the gaps

- Policy implications



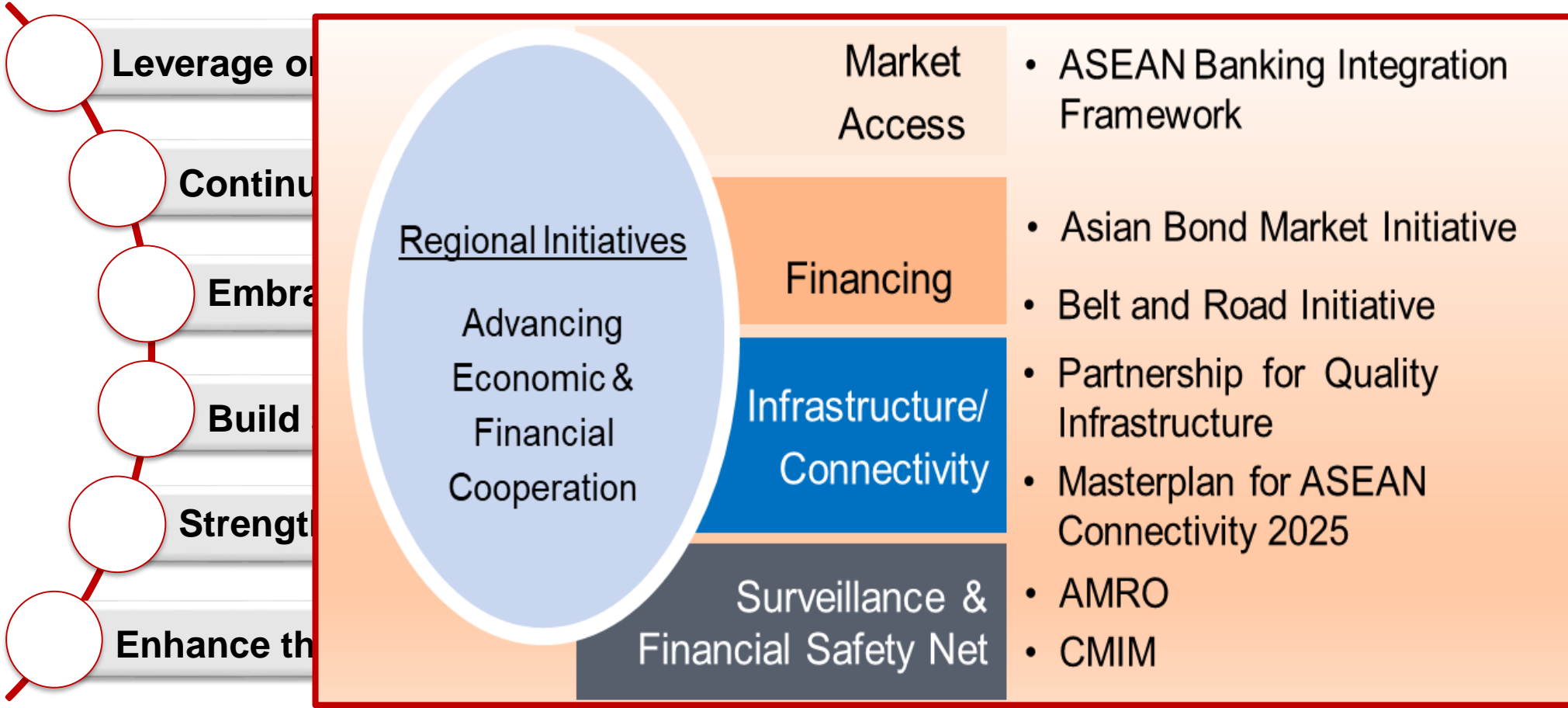
## 2019 AREO thematic chapter – bridging the gaps

- Policy implications
- **ASEAN+3 for ASEAN+3**



# 2019 AREO thematic chapter – bridging the gaps

- Policy implications
- **ASEAN+3 for ASEAN+3**



*Building Capacity and Connectivity  
in ASEAN+3 Economies*

**ASEAN+3 for ASEAN+3**

*~ "no regrets" policies? ~  
~ what are possible downsides? ~*

- "No regrets" policies?
  - *Policies that are robust and sufficiently flexible to respond to..*
  - *uncertainties (economic, political, technological) and surprises*

- "No regrets" policies?
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  - *uncertainties (economic, political, technological) and surprises*
  
- The **givens**
  - *Globalisation – there's no going back*
  - *Technological revolution (4IR) – "new economy", disruptive*
  - *Economic gravity shifts east...towards the ASEAN+3 region*

- "No regrets" policies?
  - *Policies that are robust and sufficiently flexible to respond to..*
  - *uncertainties (economic, political, technological) and surprises*
- The **uncertainties, surprises**
  - *Globalisation – pushback, pauses, dislocations => financial stability, policy risks*
  - *Technological revolution (4IR) – social, political, economic impact/upheavals*
  - *Economic gravity – international financial architecture, geopolitical shifts*



- **Fact 1: Policy risks outside ASEAN+3 region have increased**
  - *Shifts in global, East-West geo-political dynamics, cultural divide*
  - *Nationalism over (rules-based) multilateralism/international order*
  - *Policy swings: trade & investment, labour movement, IPR, environment*
  
- **So what: Trade wars => Gains from globalisation are at risk**
  - *Economic (trade, investment) relations with US, Europe remain important*
  
- **No regrets policy: Diversify, diversify, diversify! – increase trade & investment resilience**
  - *NOT turning back on North America, Europe...*
  - *... but look to alternative growth opportunity within **ASEAN+3 sphere of influence***
  
- **Potential downside: economic disruptions, dislocations...in the immediate, short-run**

- **Fact 2: Gaps in ASEAN+3 capacity and connectivity**
  - *Geographical, economic, political diversity within region*
  - *Under-investment in infrastructure post-AFC, focus on reserves accumulation*
  - *Economic catch-up, poised for future growth*
  
- **So what: Reconfiguring GVCs, economic linkages will take time**
  - *Trade and investment creation, diversion*
  
- **No regrets policy: enhance, intensify ASEAN+3 (infrastructure) connectivity**
  - *If can't do much about geo-political frictions...*
  - *Work on reducing economic frictions, i.e. improve markets' versatility to policy shifts*
  
- **Potential downside: a more inward-looking (self-reliant?) ASEAN+3**

- **Fact 3: Market failure/externalities in infrastructure and connectivity**
  - *Nature: long project gestation, high technical requirements*
  - *Political/policy risks: government support, environmental impact*
  - *Benefits are difficult to internalise: across countries, across elected governments*
  
- **So what: Market solution => under-investment in infrastructure, regional public good (RPG)**
  - *Not all economically justifiable projects are commercially viable*
  
- **No regrets policy: (coordinated) government-led push for infrastructure investment**
  - China's BRI, Japan's PQI
  - Other public-private partnerships
  
- **Potential downside: excess capacity in ASEAN+3...a happy problem?**

*Building Capacity and Connectivity  
in ASEAN+3 Economies*

**ASEAN+3 for ASEAN+3**

- ~ "no regrets" policies? ~
- ~ what are possible downsides? ~
- ~ **some issues to ponder** ~

## Issues to ponder (1): ASEAN+3 current account surpluses

- Will (Should?) ASEAN+3 economies – as a region, individually – continue to run current account surpluses *vis-a-vis* the rest of the world?

The ASEAN-4 economies generally save more than they invest and, prima facie, do not have a funding gap. They have run current account balances over the last 20 years.

*Legacy of the Asian Financial Crisis: Save First, Invest Later*

### *The Foreign Exchange Gap*

The foreign exchange gap captures the difference between the current account and the foreign exchange reserves.

Before the Asian Financial Crisis (AFC), ASEAN economies went from incurring current account deficits before the AFC to building up large current account surpluses after the crisis. They prepaid their debt to creditors and set out to build up foreign exchange reserves as a form of self-insurance against future balance of payments shocks.

ASEAN+3 economies as a group run a current account surplus that is more than enough to close the pockets of funding gaps in the region. Japan and China have

run large current account surpluses with the ASEAN+3 region due to the foreign exchange gap, that is, higher-than-optimal current account balances, and accumulation of reserves, as the price for being open to capital flows.

- Will (Should?) ASEAN+3 economies – as a region, individually – continue to run current account surpluses *vis-a-vis* the rest of the world?
  - High savings, significant reserves (***it is never enough?***)
  - Sub-optimal investment (in infrastructure, in future productive capacity)
    - => Funding, FX gaps



The screenshot shows the U.S. Department of the Treasury website. At the top is the Treasury seal and the text "U.S. DEPARTMENT OF THE TREASURY". Below this are two main sections: "NEWS" and "PRESS RELEASES". Under "NEWS", there is a sub-menu with "Press Releases" selected, and other options: "Statements & Remarks", "Readouts", "Testimonies", and "Featured". Under "PRESS RELEASES", the main headline reads "Treasury Releases Report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States". Below the headline is a blue horizontal line and the date "May 28, 2019".

May 28, 2019

Treasury found that nine major trading partners continue to warrant placement on Treasury’s “Monitoring List” of major trading partners that merit close attention to their currency practices: China, Germany, Ireland, Italy, Japan, Korea, Malaysia, Singapore, and Vietnam.

## Issues to ponder (1): ASEAN+3 current account surpluses

- Will (Should?) ASEAN+3 economies – as a region, individually – continue to run current account surpluses *vis-a-vis* the rest of the world?
  - High savings, significant reserves
  - Sub-optimal investment (in infrastructure, in future productive capacity)  
=> Funding, FX gaps
  - 20 years after AFC, does ASEAN+3 have the **growth-stability balance "just right"**?
  
- **CA surpluses: do ASEAN+3 have a choice?**
  - do **global markets hold Asia to higher standards** of macroeconomic and financial discipline than the rest of the world?
  - did the global financial crisis, ten years after the AFC, reinforce the lessons of the earlier crisis: ***better be ultra "safe" than sorry?***
  - USD reserves = **financial safety net?**



- **CA surpluses: do ASEAN+3 have a choice?**

ANDREW SHENG: Learning the lessons

Author of *From Asian to Global Financial Crisis* (2009)

Post crisis, there was much effort to make the necessary reforms, assisted by better and clearer international standards. But the key lesson concerned the higher degree of self-insurance, with larger current account surpluses and higher foreign exchange reserves – so much so that this action was blamed as one of the causes of the global imbalance. - *May 2011*

## Issues to ponder (1): ASEAN+3 current account surpluses

- **CA surpluses: do ASEAN+3 have a choice?**

Why Did Asian Countries  
Fare Better during the  
Global Financial Crisis?

Partly helped by current account balances...  
Ample international reserves provided...  
ammunition to defend their currencies during the global crisis.

*ADB, PIIE (Oct 2013)*

The global financial crisis that started in 2008 marked a momentous turning point in the global financial and economic landscape. In contrast to most crises, which originated in developing countries, the global crisis originated in the advanced economies. Its immediate origins lay in market failures in the US housing and financial markets. The crisis had a disproportionate impact on the advanced economies and less of an impact on developing countries.<sup>1</sup> More significantly, while the advanced economies still remain mired in stagnation and uncertainty, developing countries have largely shrugged off the effects of the crisis and are recovering with a healthy dose of certainty and momentum.

## Issues to ponder (2): ASEAN+3 currencies of choice?

- **Should ASEAN+3 currencies prevail (even) more in ASEAN+3?**
  - Trade, investment (payments/settlements), reserves
  - Funding, FX gaps – project financing, development aid
  - Regional financial safety net
  
- **USD vis-à-vis ASEAN+3 currencies**
  - USD: 88% of OTC FX turnover
  - USD: 62% of central bank FX reserves; 40% of world's debt issue
  - USD: 45.6% of international payments (by value) vs yen 4.3%, renminbi 1.2%
  - Yen payment: 45% of Japanese exports to other Asian countries
  - RMB joins USD, euro, yen, £ in SDR basket
  - RMB most actively traded emerging market currency (95% against USD)

- Should ASEAN+3 currencies prevail (even) more in ASEAN+3?
  - Trade, investment (payments/settlements), reserves
  - Funding, FX gaps – project financing, development aid
  - Regional financial safety net
  
- **Internationalisation (or regionalisation) of ASEAN+3 currencies – *organic growth or concerted policy nudge?*** Some issues:
  - Financial stability: capital flows, exchange rate, currency convertibility
  - Monetary policy
  - Legal-regulatory framework
  - CMIM discussions

## *Summary & discussion*

### ▪ **ASEAN+3 for ASEAN+3**

- Inevitable => key drivers (push, pull, new economy), key gaps (funding, FX, factors)
- No-regrets policies => a more integrated and connected ASEAN+3
- Remain open to US, Europe, RoW => policy risks outside ASEAN+3 largely exogenous

### ▪ **Issue #1: CA surpluses (reserves build-up)**

- Necessary? No choice?
- Sustainable?

### ▪ **Issue #2: ASEAN+3 currencies – organic growth or concerted policy nudge?**

- Trade, investment, project financing
- Reserves, financial safety net, CMIM

**Thank you!**

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**Lam San Ling, AMRO Consultant**  
**19 June 2019**