

Asia and the Global Slowdown

Write-up for DMD & CFO¹

1. Views & concerns on the prospects of global economic growth & impact on outlook of the Asian economies

Global Economic Outlook

- Global economy has been recovering with notable pick-up in investment, trade and industrial production, coupled with strengthening business and consumer confidence supporting the momentum.
- The growth momentum however is uneven with a pick up in Euro Area being more pronounced, a modest pick up in US (expected to grow at 2.2% in 2017 and 2.3% in 2018), while growth in UK is projected to remain sluggish with 1.7% and 1.5% in 2017 and 2018.
- Prospects for many emerging market and developing economies in sub-Saharan Africa, the Middle East, and Latin America remain lackluster.
- Inflation remains weak across all economies, even as central banks of most of the major economies are either starting to normalize monetary policy or are thinking about it.

Key concerns on outlook

- Among the other key risks facing global growth stems possible inward-looking policy shift and persistently low inflation in advanced economies, and a range of noneconomic factors, particularly rising geopolitical tensions and domestic political discord.
- Meanwhile, the world has other issues that need attention, including slow growth of nominal wages, rising income inequality and job polarization such that middle-skill but well-paying jobs have become increasingly scarce.
- The fear of faster automation is another cause of anxiety.

Asian Economies: Evolving Risks

- Asia-Pacific continues to be the leader in economic growth with recent data pointing to a pick-up in momentum. Growth is projected to reach 5.5% in 2017 and 5.4% in 2018 from 5.3% in 2016.
- Malaysia and Thailand have better growth prospects owing to higher investment and a recovery in global trade boosting exports and tourism.
- China and India will also continue on their growth path.
- An escalation of geopolitical tensions could hurt tourism, FDI, and trade, disrupting major sources of growth.
- A possible shift toward protectionism in major trading partners also represents a substantial risk to the region.
- Despite volatile capital flows, Asian financial markets have been resilient, reflecting strong fundamentals. Capital flows stabilized by the end of the year, with cumulative portfolio inflows (bonds and equities combined) to major Asian emerging market

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economies (excluding China) reaching \$51 billion in 2016, well above the \$42 billion in 2015, but below the peak of \$72 billion prior to the U.S. elections. **Asia attracted \$527 billion in FDI in 2016 (30% of the world's share).** But the continued tightening of global financial conditions and economic uncertainty could trigger volatility in capital flows.

- For medium-term perspective, the region faces secular headwinds, including from population aging and sluggish productivity.

2. Trade risks in era of rising protectionism

- With world trade growing at 1.3% in 2016—the slowest trade growth since the global financial crisis—the slowdown in global trade is now in its sixth year. Trade in emerging economies began to decline from 2011 due to slowing economic growth in China and a fall in commodity prices. During this time, trade in developed economies stalled as economic activity slowed in North America and Europe.
- The global trade volume turned positive for the first time in Q4 2016, after contracting for eight consecutive quarters.
- The period of slow trade growth coincided with an increase in protectionist trade measures around the world. The total number of discriminatory (protectionist) measures implemented by the G20 increased over the past five years (when reporting lags are taken into account).
- The BRICS countries recorded the maximum number of protectionist measures, accounting for around 30% of the total measures implemented since 2009. However, the share of the G7 nations and Australia together also has grown markedly. Between 2008 and October 2016, a total of 1,671 trade-restrictive measures were recorded for G20 economies. Since October, only 408 (about 24 percent of the total) have been discontinued, leaving a new total of 1,263. The World Trade Organization (WTO) has recorded a moderate rise in G20 trade restrictions since October 2016.

3. Future of work

- To prevent a worst-case scenario—technological change accompanied by talent shortages, mass unemployment and growing inequality—reskilling and upskilling of today's workers will be critical.
- Additionally, better data and planning metrics are critical in helping to anticipate and proactively manage the current transition in labour markets.
- Given the rapid aging and related fiscal costs in Asia, as well as the region's relatively low pension coverage (World Bank 2016), strengthening pension systems takes a high priority. Policy measures could include: Entitlement reform through automatic adjustment mechanisms that link changes in the retirement age (or benefits) to life expectancy. This could help depoliticize pension reform and contain pension costs (Arbatli and others 2016).

4. Structural reforms needed to support growth

- Productivity-enhancing reforms should be undertaken
- Strengthening regional trade integration could provide some support.
- In advanced economies, the focus should be on strengthening the effectiveness of R&D spending and measures to raise productivity in the services sectors.

- In emerging and developing economies in the region, priority should be given to capitalizing on recent achievements, including maintaining FDI inflows, by increasing absorptive capacity and domestic investment.
- Increasing education and human capital is also very important.
- Monetary policy should generally remain accommodative, given that inflation is below target and there is slack in most economies in the region.

5. Growth – Sustainable and Equitable

- If emerging economies in Asia and the Pacific are to maintain their robust economic growth rates, they need to respond to the challenges posed by the ascent of knowledge economies.
- The Governments is required to have appropriate policies and incentives to deepen talent pools and to expand access to market-relevant skills development to the disadvantaged sections of the population.
- Over the next five years, Asian governments should focus on 'green growth'. This will be driven by energy security and resource sustainability overall, as well as by economic and environmental sustainability — including the global response to climate change. Both governments and businesses should move forward together on this through public–private partnerships that mobilise capital for low-carbon investment and innovations in resource productivity and energy efficiency, as well as by consumer demand and the setting of market prices for previously 'free' natural resources. Moreover, an insistence on social equity and inclusion through clean and decent jobs should be done.
