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

• Asia must strengthen its disaster resilience given 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


<table>
<thead>
<tr>
<th>Major industrial economies(^a)</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>United States</td>
<td>2.2</td>
<td>2.9</td>
<td>2.4</td>
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<tr>
<td>Euro area</td>
<td>2.5</td>
<td>1.8</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Japan</td>
<td>1.9</td>
<td>0.8</td>
<td>0.8</td>
<td>0.6</td>
</tr>
</tbody>
</table>

\(^a\) Average growth rates are weighed by gross national income, Atlas method.

Global trade and activity slowed and trade tensions escalated...

Global activity indicators

- US imposes tariffs against PRC goods worth $200 billion. PRC retaliates with $60 billion worth of tariffs
- US and PRC impose $16 billion worth of tariffs on each other
- US and PRC impose $34 billion worth of tariffs on each other
- US imposes tariffs on solar panel and washing machines, steel, and aluminum

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...

Export growth, by product categories

Import growth, by product categories

Primary products refer to food and live animals; beverages and tobacco; crude materials, inedible, except fuels; mineral fuels, lubricants and related materials; and animal and vegetable oils, fats and waxes. Manufactured goods refer to chemicals and related products; manufactured goods, classified chiefly by material; machinery and transport equipment; miscellaneous manufactured articles; and commodities and transactions not classified elsewhere in the SITC.

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 contribution to growth, selected economies**

- Total consumption
- Total investments
- Net Exports
- GDP growth

**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 cover the period 1 April to 30 March.

Source: Haver Analytics (accessed 10 March 2019); ADB estimates.
Developing Asia’s more open sub-regions will see more of a slowdown in 2019

<table>
<thead>
<tr>
<th></th>
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<td>7.2</td>
<td>7.3</td>
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<td>3.9</td>
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<td><strong>Central Asia</strong></td>
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</tr>
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<td><strong>Southeast Asia</strong></td>
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<td>Singapore</td>
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</tr>
<tr>
<td>Thailand</td>
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<td>3.9</td>
<td>3.7</td>
<td>4.1</td>
<td>3.9</td>
<td>3.7</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>7.1</td>
<td>6.8</td>
<td>6.7</td>
<td>7.1</td>
<td>6.8</td>
<td>6.7</td>
</tr>
<tr>
<td><strong>The Pacific</strong></td>
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<tr>
<td>Fiji</td>
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<td>3.0</td>
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<tr>
<td>Papua New Guinea</td>
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<td>3.1</td>
<td>0.2</td>
<td>3.7</td>
<td>3.1</td>
</tr>
<tr>
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<td>5.9</td>
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<td>5.6</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Excluding NIEs</td>
<td>6.4</td>
<td>6.2</td>
<td>6.1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Red arrow = lower than the previous year. Green arrow = higher than the previous year. No sign = no change.
PRC moderation reflects both structural factors and policy tightening

**Supply-side contribution to growth**

- Services
- Industry
- Agriculture
- Gross domestic product

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage points</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-2013</td>
<td>9.0</td>
</tr>
<tr>
<td>2014</td>
<td>7.3</td>
</tr>
<tr>
<td>2015</td>
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<td>2017</td>
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<tr>
<td>2018</td>
<td>6.6</td>
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<tr>
<td>2019</td>
<td>6.3</td>
</tr>
<tr>
<td>2020</td>
<td>6.1</td>
</tr>
</tbody>
</table>

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

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

Sources: National Bureau of Statistics.
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**

- Private consumption
- Government consumption
- Gross capital formation
- Net exports
- Gross domestic product

**Purchasing manager’s index, Manufacturing**

- Expansion
- Contraction

Years are in fiscal years which cover the period 1 April to 30 March.

Source: Asian Development Outlook database.
Stable food and fuel prices to keep inflation in check

Brent crude and food price

- Brent Crude Spot Price (left scale)
- Food price index (Annual average)
- Food price index (right scale)
- Brent Crude Futures Price (12 February 2019)
- Food price forecast (ADO 2019)

Inflation and sub-regional contributions, developing Asia

- Central Asia
- South Asia
- The Pacific
- East Asia
- Southeast Asia
- The Pacific

10-year average (2009-2018): 3.2%

Source: Bloomberg.

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
- Disasters triggered by natural hazards as growing medium-term risks for developing Asia
The Trade Conflict and its Implications
The trade conflict escalated and became more bilateral in late 2018...

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.
...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 MRIOIT 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:** Authors’ calculations.
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 March 2019; 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
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.

Source: Staff calculations.
The PRC and the US are negatively affected in each scenario, with a larger impact on the PRC.

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.
Impact on others: effects through direct (tariff) and indirect (prod. linkages) channels is negative and small...

Impact by major economic region, Current Scenario

% GDP

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 potentially be offset by redirection of trade and production.

Impact by major economic region, Current Scenario

- Direct and Indirect Effects
- Trade Redirection Effects
- Net Impact (Partial Redirection)

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.
Under the worse-case scenario the patterns are similar, but the magnitudes are larger.

Impact by major economic region, Worse-Case Scenario

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.
Under the current scenario, early signs of redirection of production facilities to the rest of developing Asia.

**GDP impact of trade conflict by economic region**

<table>
<thead>
<tr>
<th>Region</th>
<th>Direct and Indirect Effects</th>
<th>Trade Redirection Effects</th>
<th>Net Impact (Partial Redirection)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>-0.05</td>
<td></td>
<td>-0.25</td>
</tr>
<tr>
<td>PRC</td>
<td>-0.25</td>
<td></td>
<td>-0.13</td>
</tr>
<tr>
<td>USA</td>
<td></td>
<td>0.06</td>
<td>0.04</td>
</tr>
<tr>
<td>NIEs</td>
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<td></td>
<td>0.01</td>
</tr>
<tr>
<td>ASEAN-5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rest of Asia</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

% of GDP

Source: ADB Staff estimates.

**FDI inflows to developing Asia, by source**

Source: Staff calculations using data from fDi Markets (available: https://www.fdimarkets.com/).

NIEs = newly industrialized economies of Hong Kong, China; Republic of Korea; Singapore; and Taipei, China. ASEAN-5 = Indonesia, Malaysia, Philippines, Thailand, and Viet Nam. Rest of Asia = Bangladesh, Bhutan, Brunei Darussalam, Cambodia, Fiji, India, Lao People’s Democratic Republic, Maldives, Mongolia, Pakistan, and Sri Lanka.

Source: ADB Staff estimates.
Diverse sectors affected, but electronics and machinery the most.

GDP impact of trade conflict, by sector under current tariffs

PRC

ASEAN-5

NIEs

Rest of Asia

% of GDP

0.15%

0.00%

0.00%

-0.15%

-0.30%

-0.25%

($0.9bn)

($1.6 bn)

($0.3 bn)

(-$30.5 bn)

Others

Business Services

Agriculture

Finance

Metals

Wholesale Trade

Mining and Quarrying

Chemicals

Machinery, Nec

Electronics

Total Impact

NIEs = newly industrialized economies of Hong Kong, China; Republic of Korea; Singapore; and Taipei, China. ASEAN-5 = Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Rest of Asia = Bangladesh, Bhutan, Brunei Darussalam, Cambodia, Fiji, India, Lao People’s Democratic Republic, Maldives, Mongolia, Pakistan, and Sri Lanka.

Source: ADB Staff estimates.
US Trade Policy Uncertainty (TPU) has increased over the past 2 years...

...and US TPU vis-à-vis Asia is at an all-time high.

Note: TPU is a news-based indicator that measures the degree of uncertainty about trade policy. For more information on how the indicator is constructed see Baker, Bloom, and Davis (2016).

Note: A similar algorithm to Baker, Bloom, and Davis (2016) is used to construct US TPU vis-à-vis Asia. See Abiad, et al. (forthcoming)
Source: ADB staff estimates.
Trade policy uncertainty in the PRC is also at all-time highs...

...which can have adverse effects on investment.

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

Theme Chapter:
Strengthening Disaster Resilience
Asia is particularly susceptible to disaster risk

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

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

- Weather-related
- Geophysical
- Biological

Affected
Deaths
Damage

Asia’s Share in Global Total

84% of world total
55%
26%

Source: EM-DAT

...and disasters from natural hazards occur across the region

Highest death tolls from disasters in Asia since 1990

Asia's Share in Global Total

27%
and disasters hit poor and small economies the hardest

Average Annual Losses in Developing Asia

% of exposed assets

By income

- Low: 0.8
- Lower middle: 0.2
- Upper middle: 0.1
- High: 0.2

% of exposed assets

By region

- The Pacific: 0.6
- Southeast Asia: 0.3
- South Asia: 0.2
- Central Asia: 0.2
- East Asia: 0.1

Source: UNISDR 2015.
Disaster risks are rising because vulnerable populations are increasingly exposed to hazards...

...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 DRR)
- Increase spending on prevention vs. response
- Focus on preventive investments that can yield multiple dividends

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...

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

#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
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

• Asia must strengthen its disaster resilience given growing risks posed by natural hazards
THANK YOU

https://www.adb.org/publications/series/asian-development-outlook
Appendix Slides
On the upside, emerging-market currencies have bounced back....

- Since 4Q 2018, emerging-market currencies strengthened tangibly and risk aversion receded
- Moderation of pace of US interest rates in will further boost investor confidence in emerging market
- Although potential sources of volatility remain, EM FX markets are likely to be more stable in 2019

MSCI = Morgan Stanley Capital International.
Notes: MSCI Emerging Market Currency Index measures the total return of 25 emerging market currencies relative to the US dollar where the weight of each currency is equal to its country weight in the MSCI Emerging Markets Index. Data are from 1 January 2018 to 1 March 2019.
Source: Bloomberg LP.
Exchange rates have implications through financial and trade channels

- Empirical analysis of selected emerging Asian economies shows that exchange rates affect sovereign credit risk premiums through two competing channels.
  - A 1% bilateral depreciation against the US dollar widens sovereign bond spreads by approx. 4.2 bps points – dominated by financial channel
  - A 1% depreciation of the nominal effective exchange rate narrows local currency spreads by approximately 7.2 bps – dominated by trade channel

- Strengthening domestic financial resilience with an appropriate policy mix and regional policy dialogue can dampen the impact of external funding conditions on domestic financial markets.

Notes: ADB computation based on Lee, Rosenkranz, and Pham (2019). Regression analysis is based on 8 selected emerging Asian economies—Asia's Republic of China, India, Indonesia, the Republic of Korea, Malaysia, the Philippines, and Thailand—using monthly data from December 2006 to August 2018. Data source: Bank for International Settlements; Bloomberg; Haver Analytics; and International Monetary Fund (accessed January 2019)
...as external demand slows.

Sources: CEIC Data Company and Haver Analytics (accessed 11 March 2019).
Immediate losses on local economic activity can be substantial

- Local economic impacts 1.7%, up to 23%
- Localized and short-lived

Source: Strobl, forthcoming