

# **ECONOMIC OUTLOOK**

## **Asia – What to expect in 2020**

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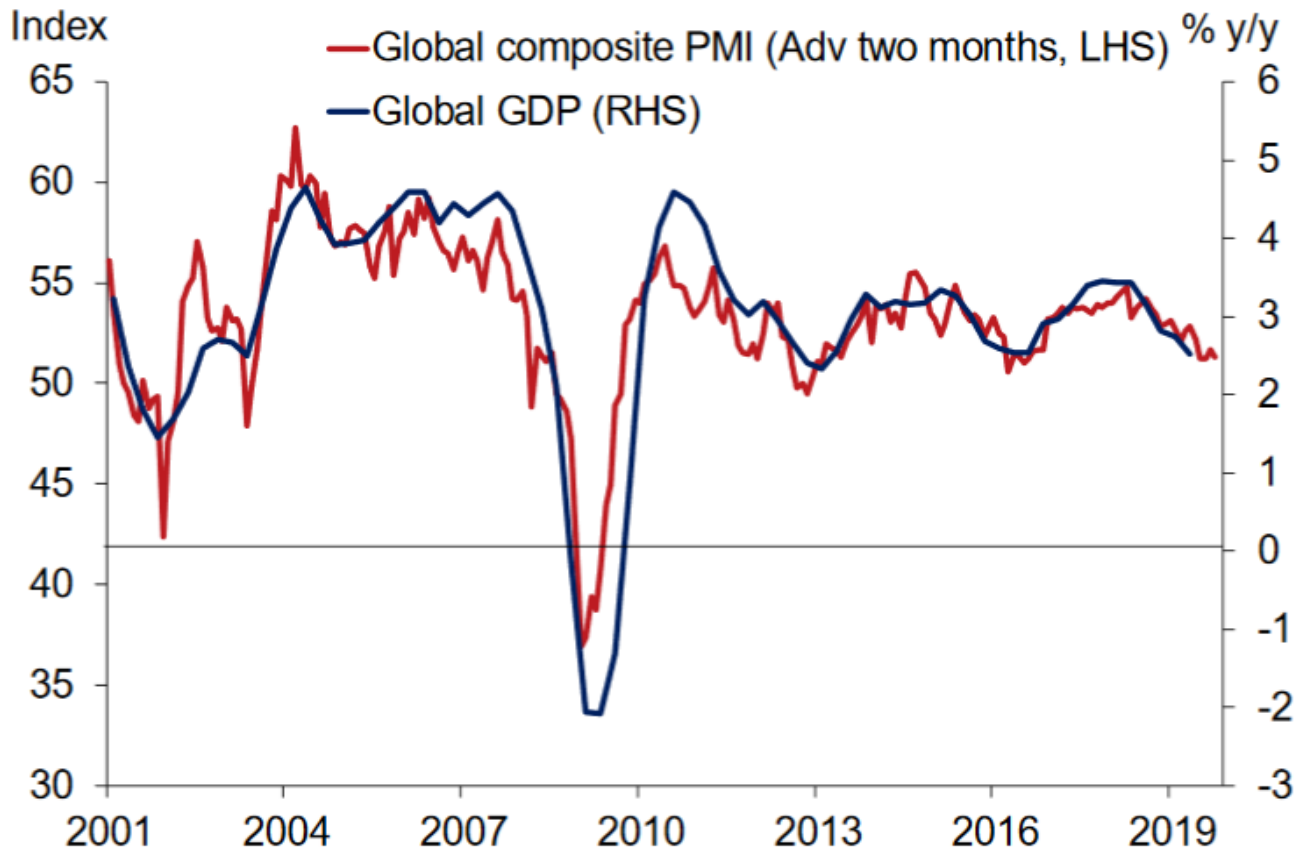
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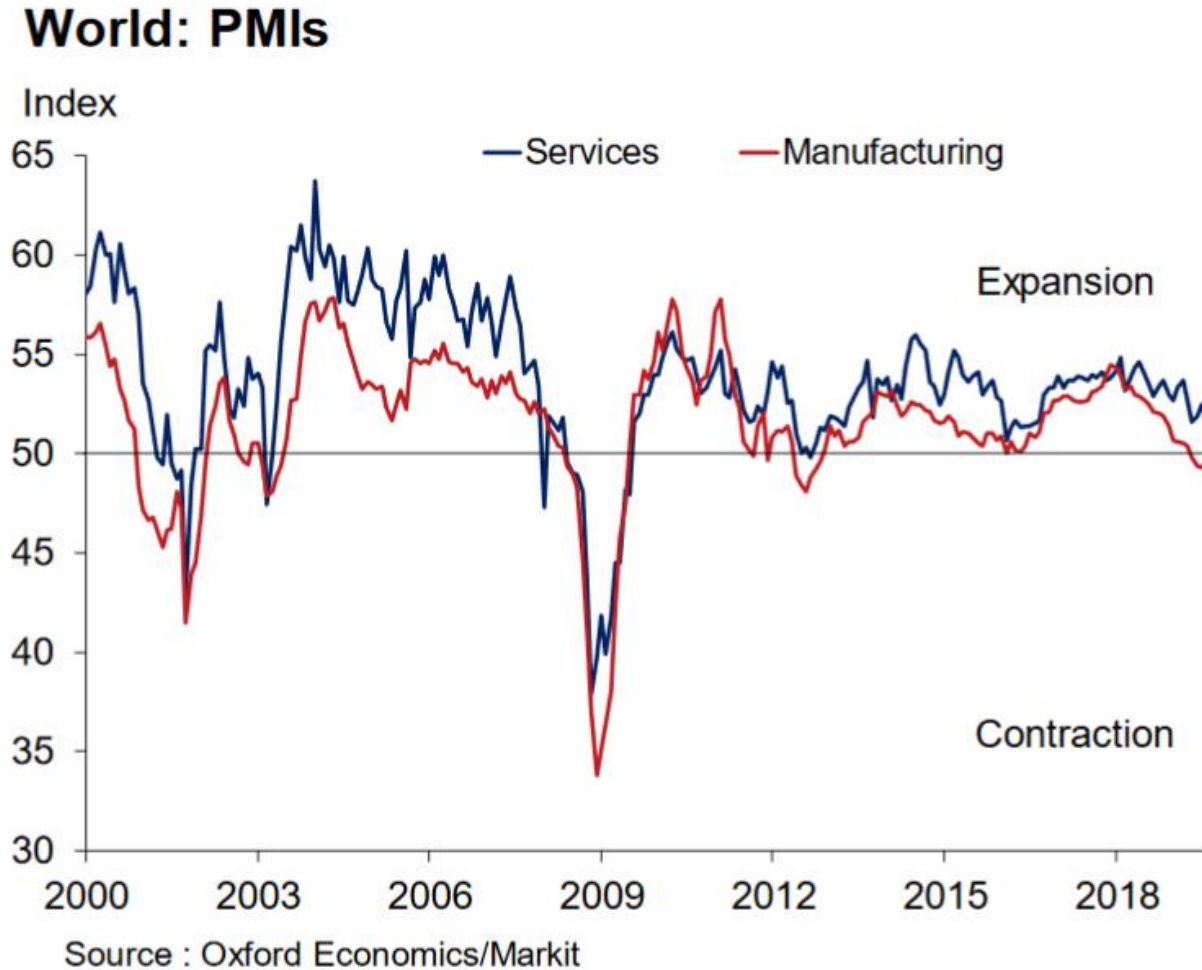
# Trade slowdown has taken its toll on growth

## World: GDP & PMI



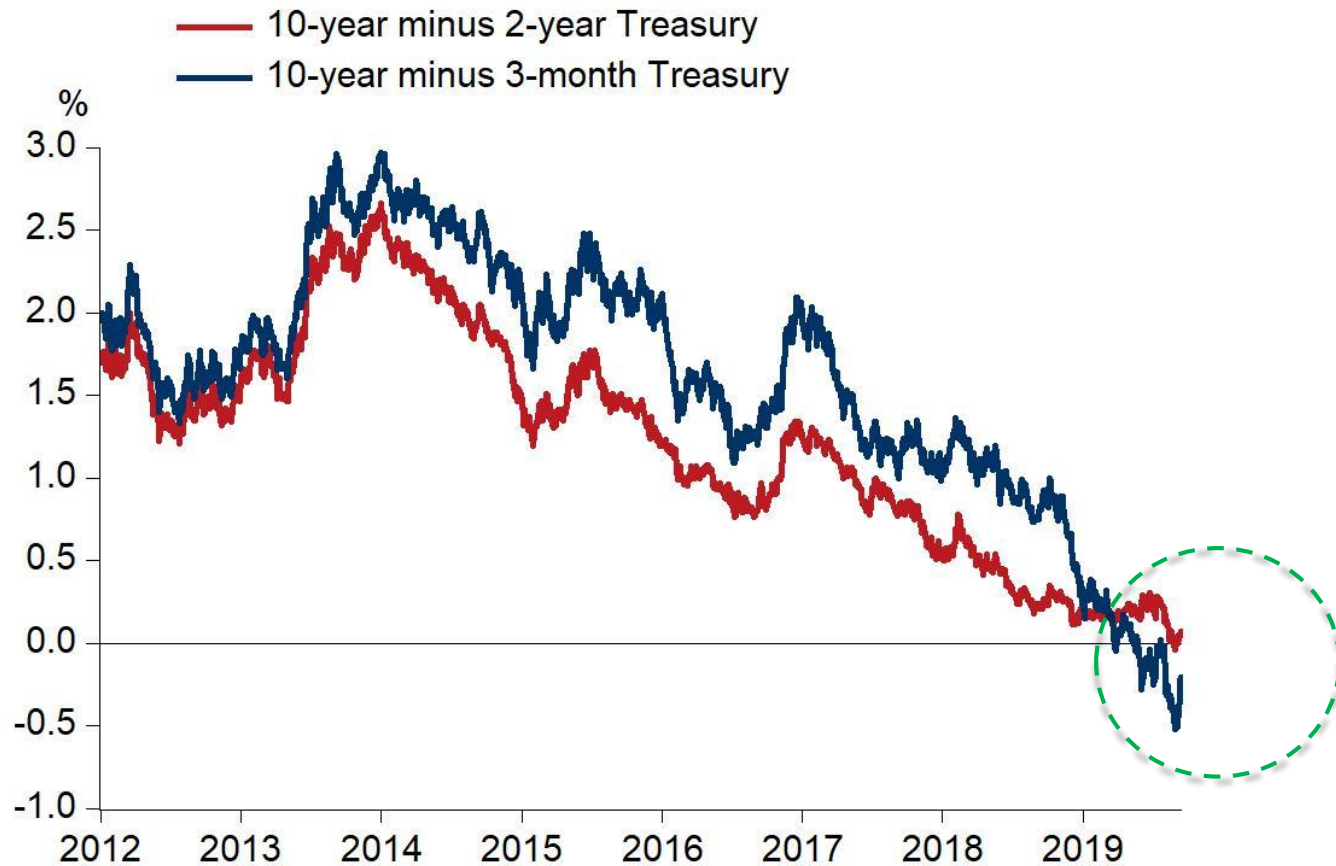
Source : Oxford Economics/Haver Analytics/Markit

# Signs of slowdown spilling over into services



# Recession odds have risen

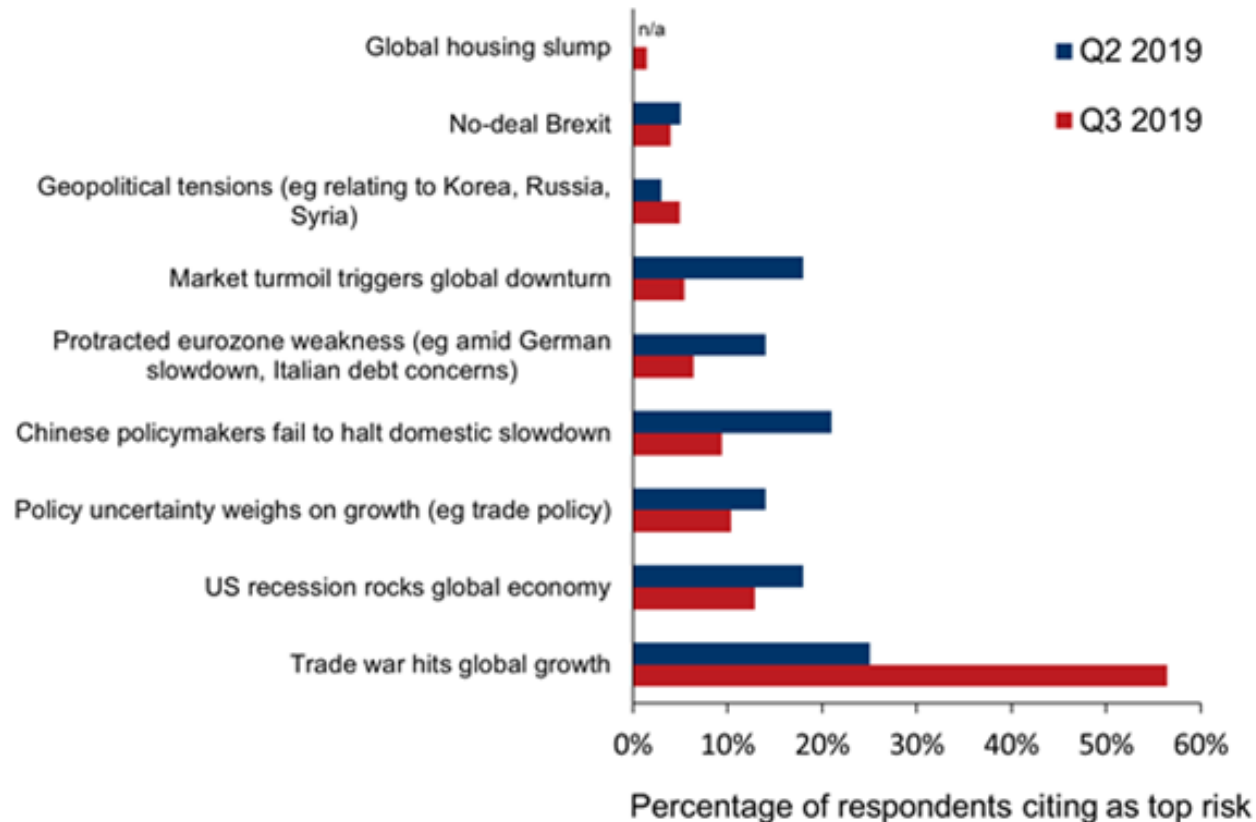
## US: Yield curve has been flattening



Source: Oxford Economics/Haver Analytics

# Trade war remains top source of concern

What do you see as the top 3 downside global economic risks over the next two years?



Source : Oxford Economics Global Risk Survey

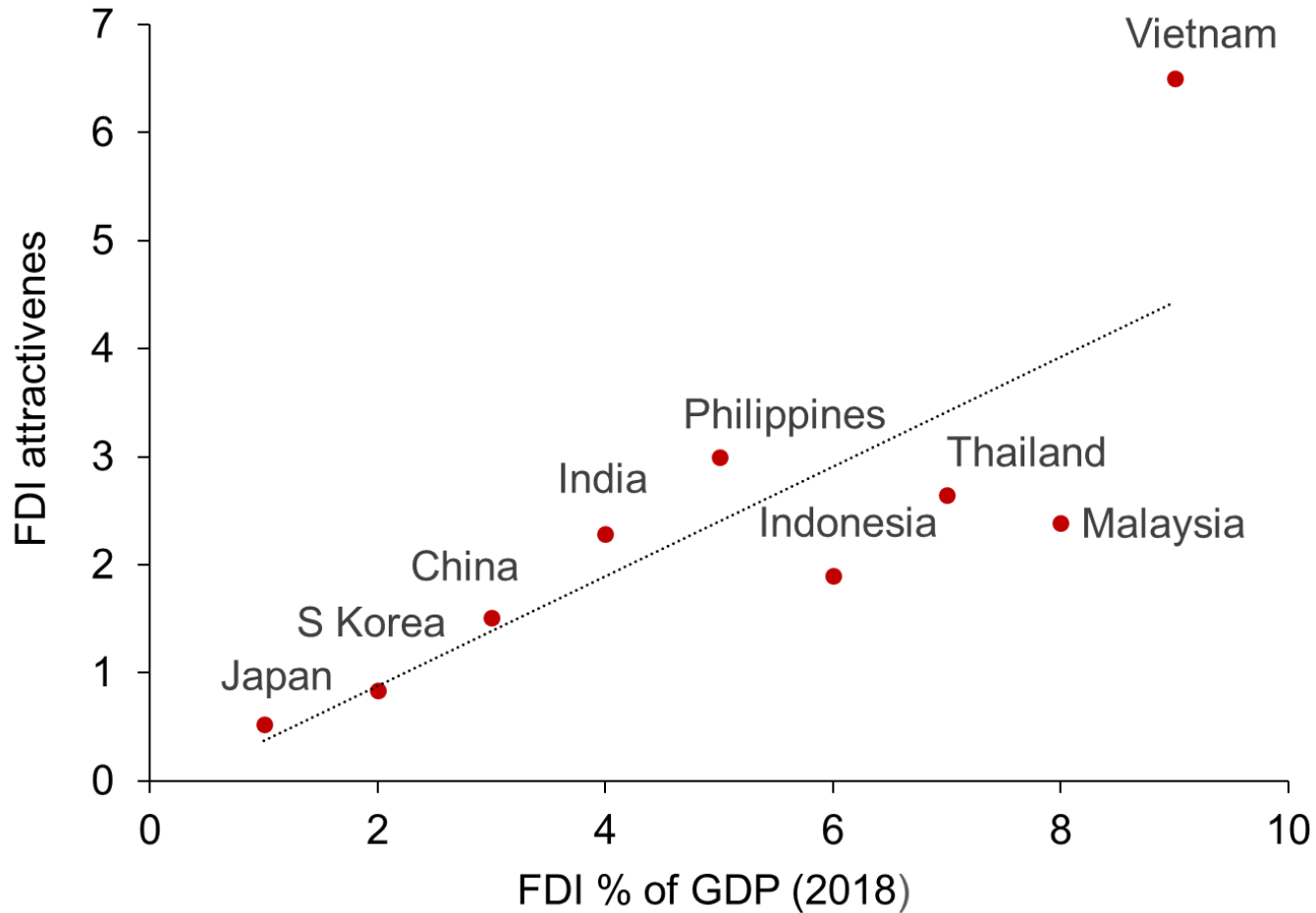
# Prospects for resolution dim

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- Some conciliatory steps recently
- But meaningful de-escalation of the conflict unlikely
- Economic tensions between the US and China increasingly threatening to turn persistent
- Tensions are spilling beyond trade leading to other restrictions, indicating decoupling

# Are there any beneficiaries?

## Asia: FDI scorecard

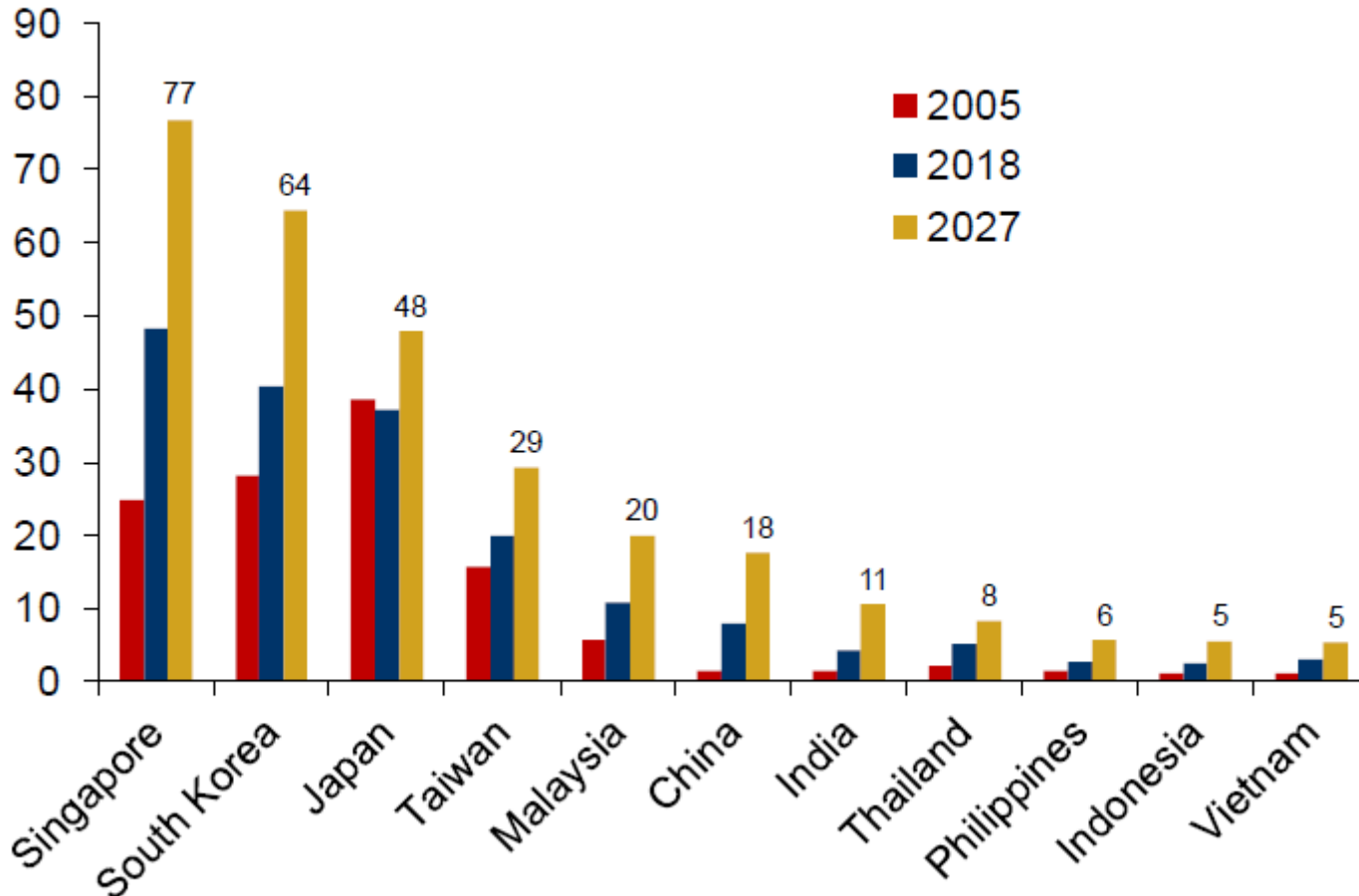


Source : Oxford Economics/UNCTAD/WEF/World Bank/OECD

# Labour metrics - positive for most EM Asia

## Asia: Average annual earnings, US\$ per

'000s

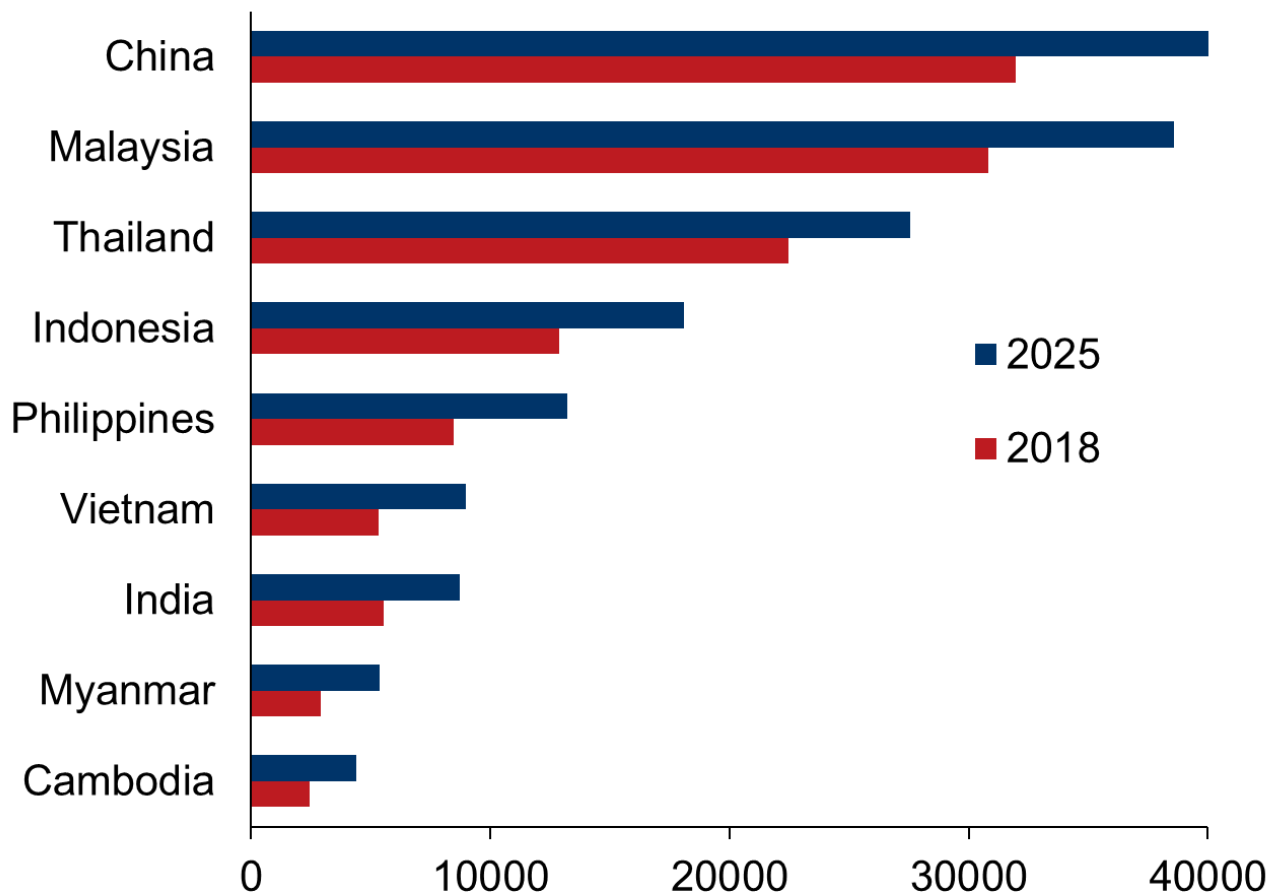


Source : Oxford Economics/Haver Analytics



# Non labour metrics - the key differentiator

## Emerging Asia: Capital stock



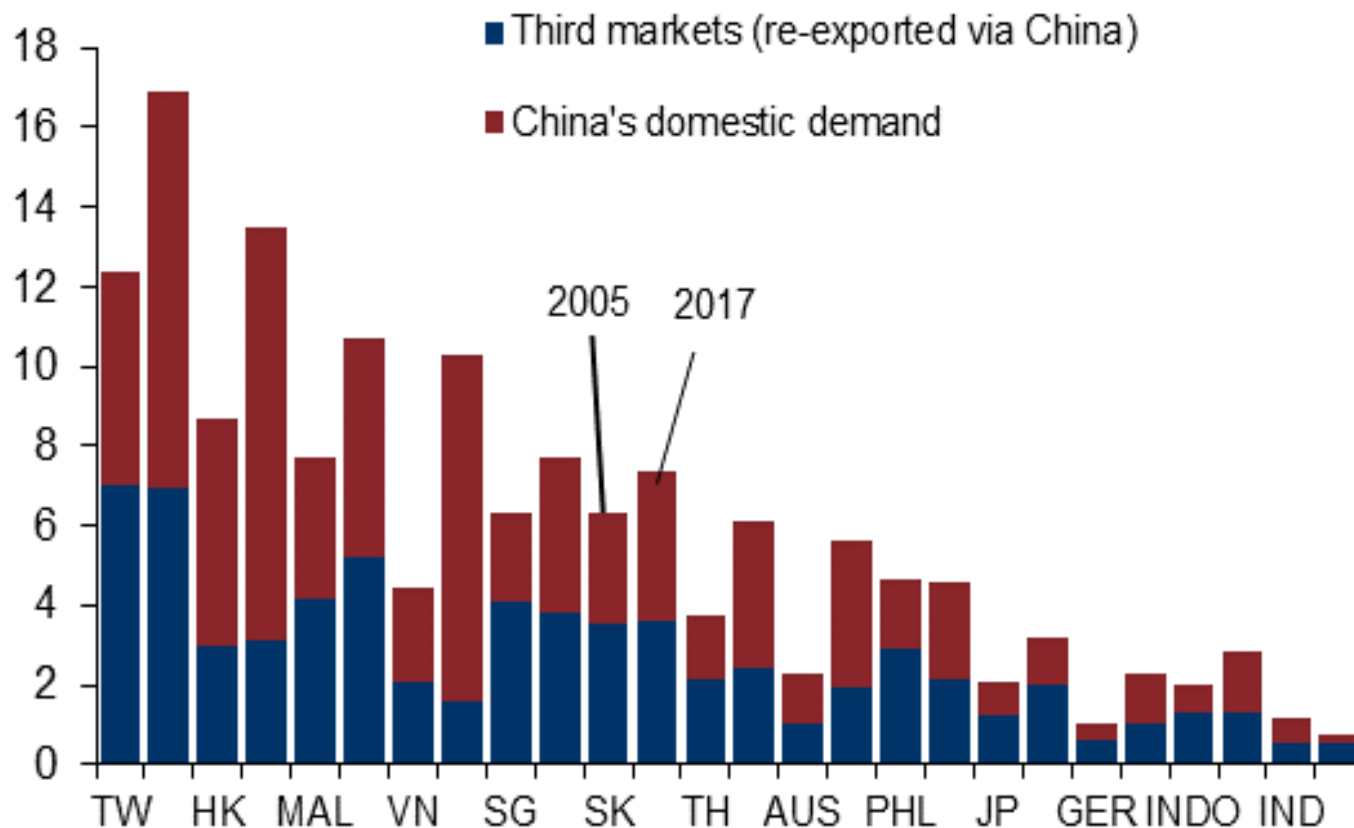
Source : Oxford Economics/Haver Analytics

Capital per capita,  
US\$ 2015 prices

# External development dominate short-run outlook

## APAC: exports to China, 2005 and 2017

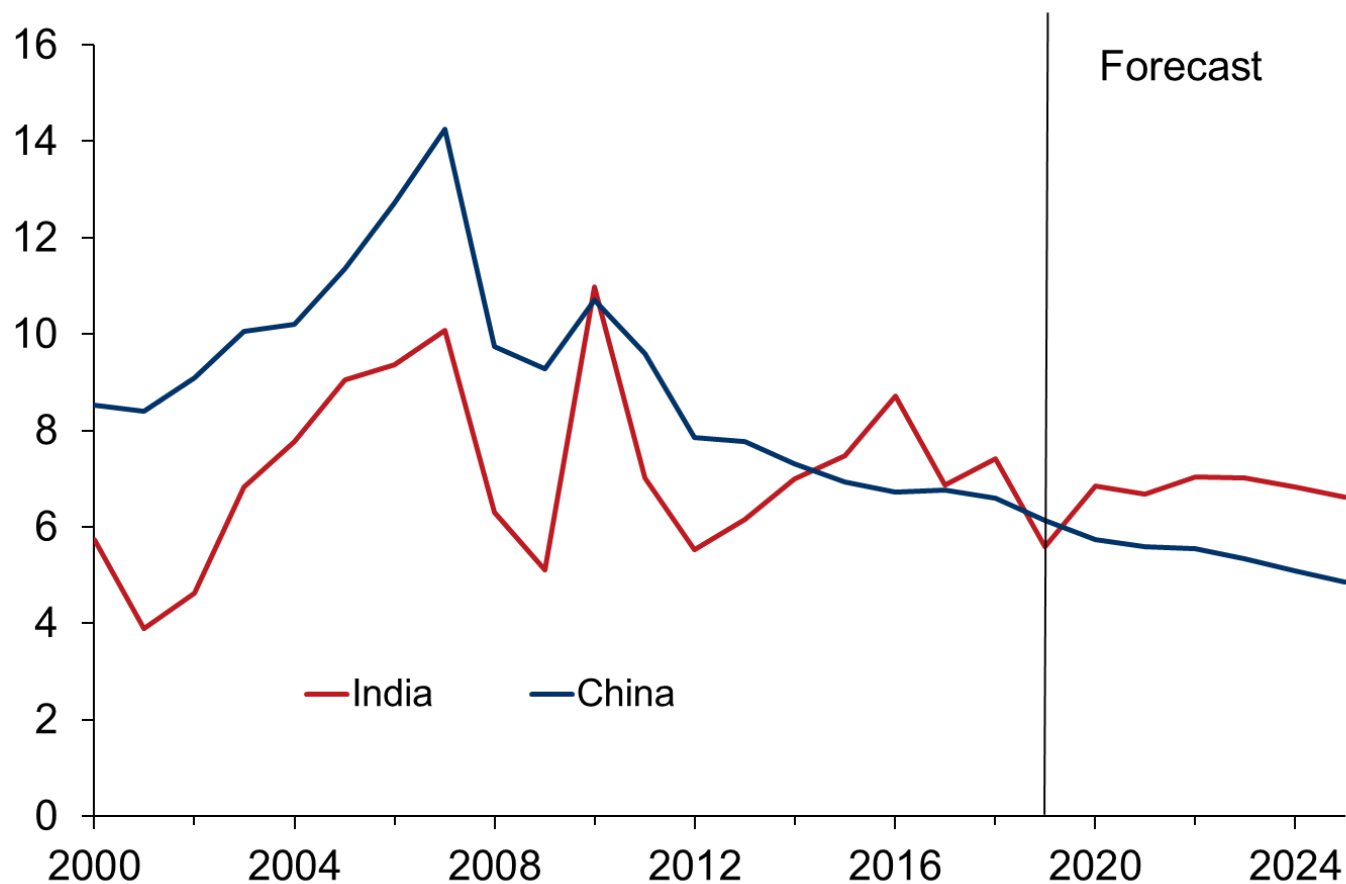
VA terms, % GDP



Source: Oxford Economics, CEIC Data, OECD TiVA data

# A slowing China matters more for the open economies

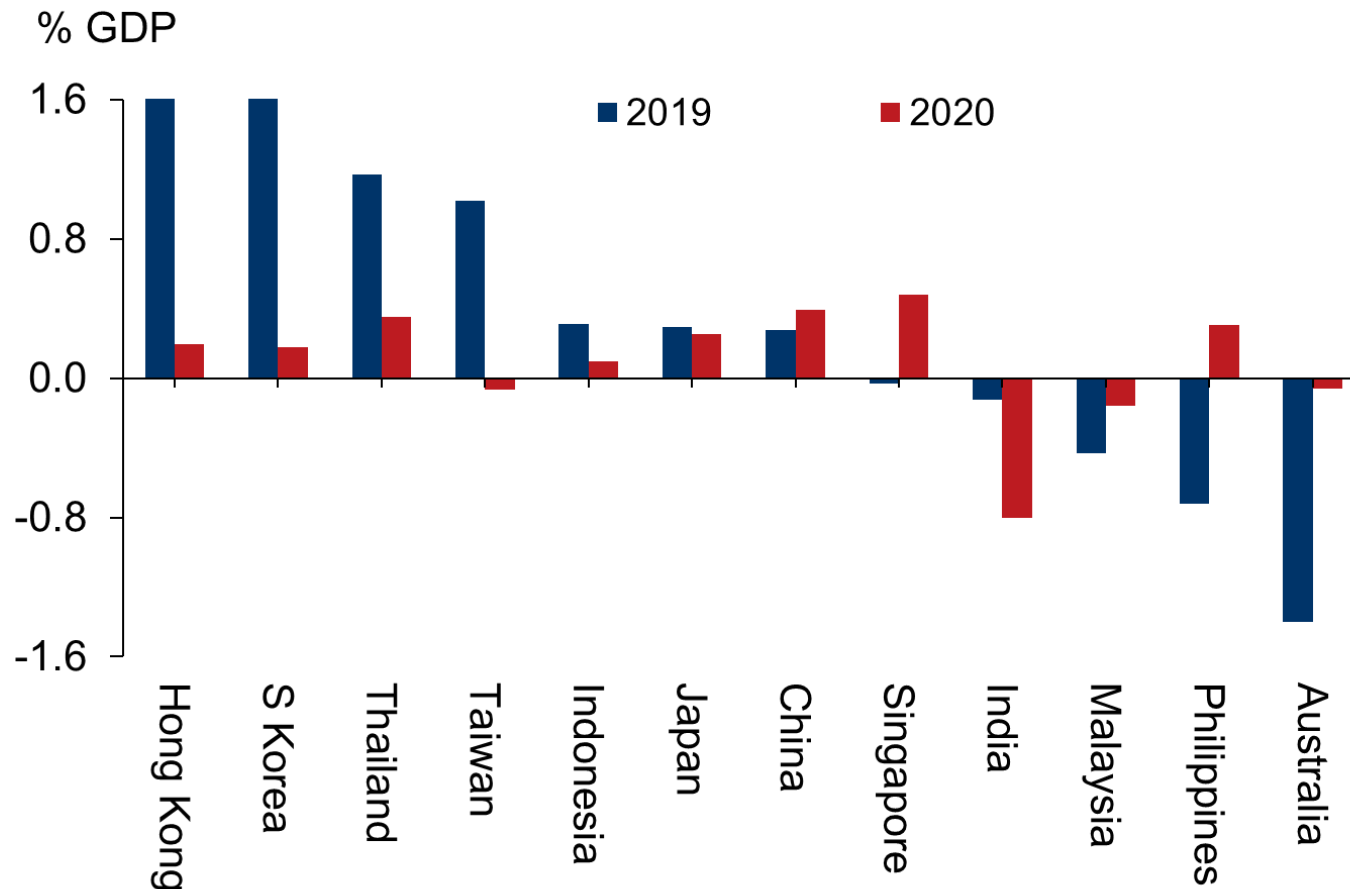
## India and China GDP growth



Source : Oxford Economics/Haver Analytics

# Fiscal policy to partly offset weakness

## APAC: Fiscal impulse\*



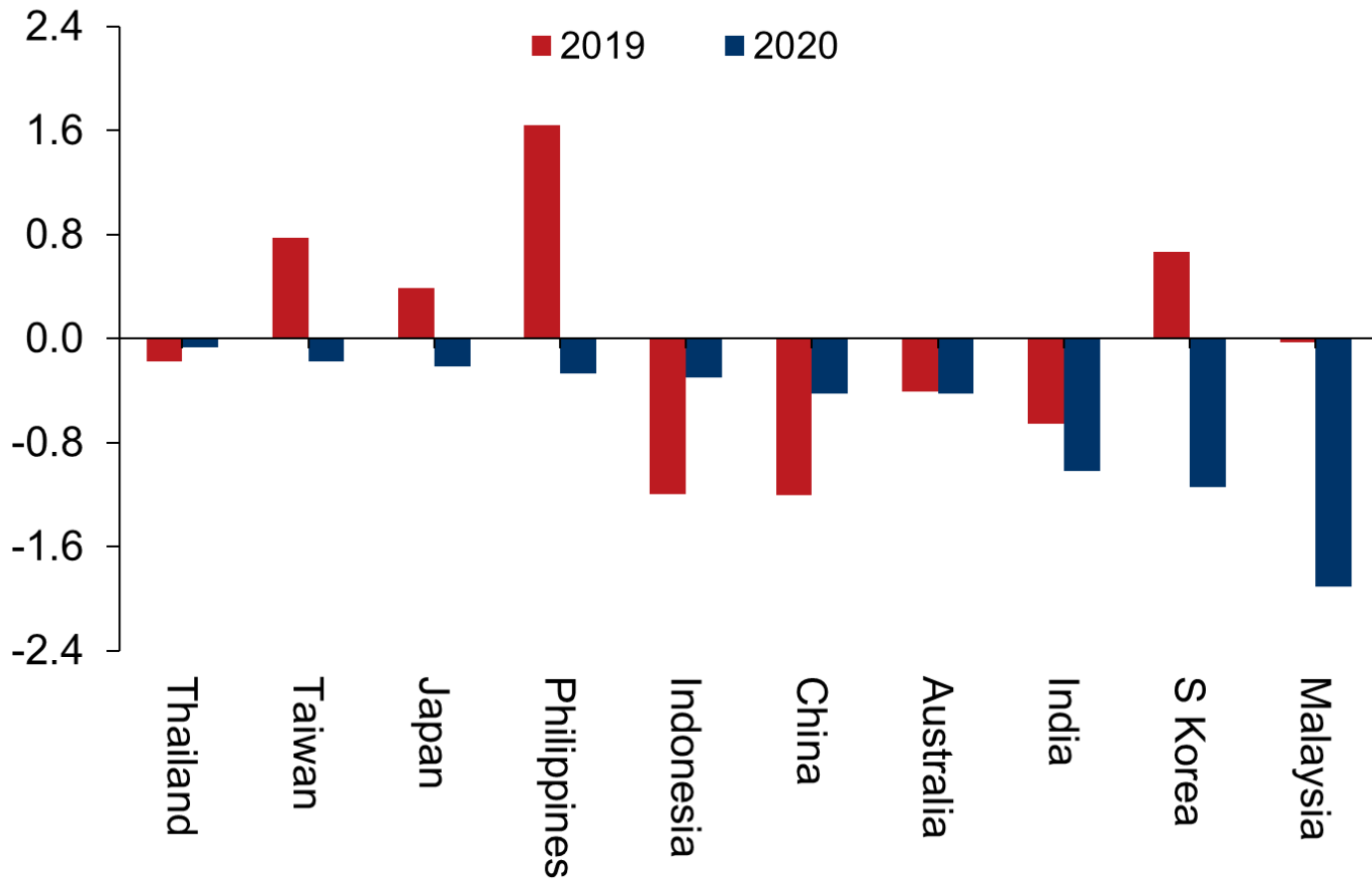
Source : Oxford Economics/Haver Analytics

\*change in overall fiscal balance adjusted for changes in the output gap

# Monetary policy largely expansionary

## APAC: Monetary policy stance

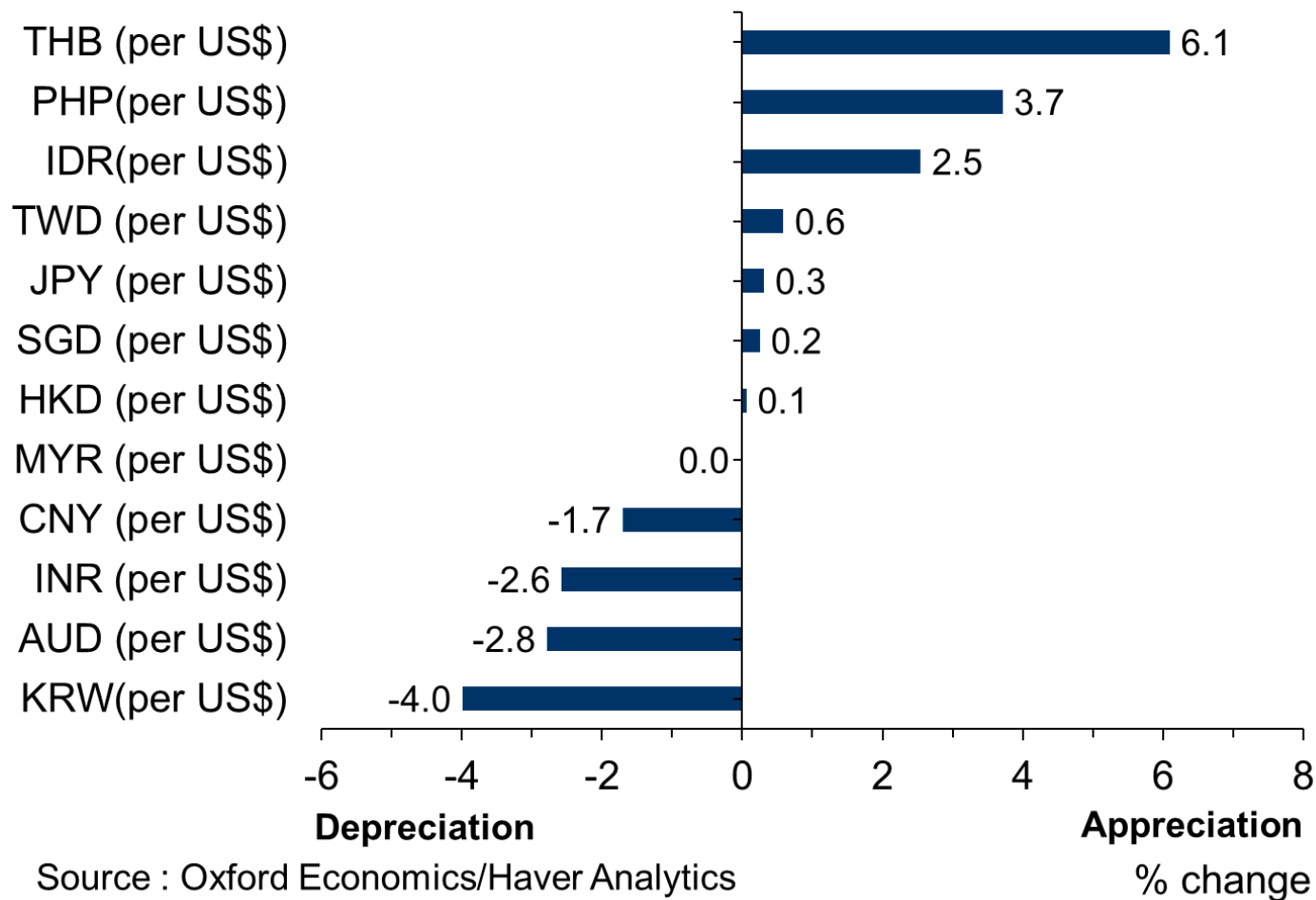
change in real policy rate, ppt



Source : Oxford Economics/Haver Analytics

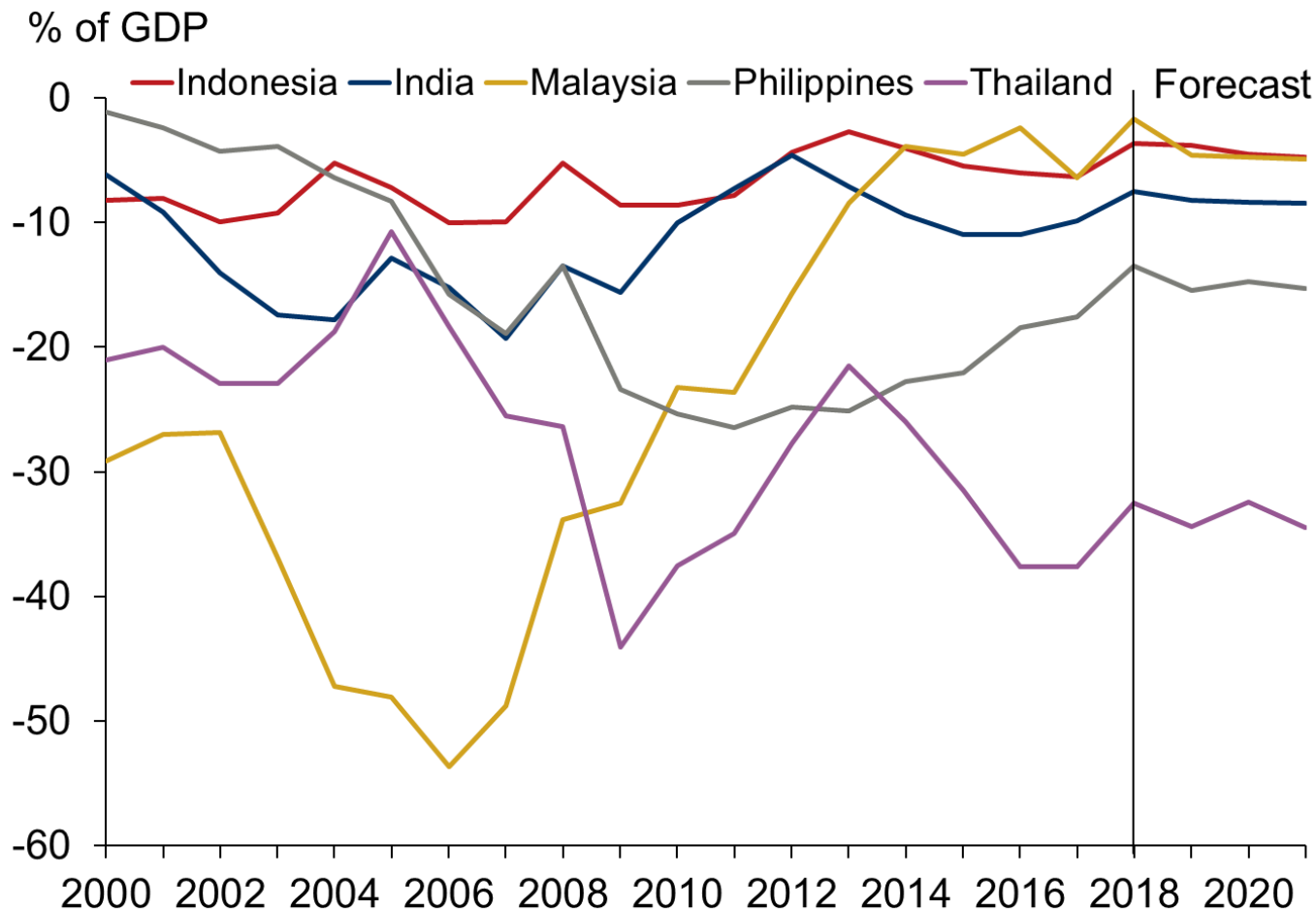
# Stronger dollar can complicate monetary setting

## APAC: Year-to-date FX performance



# Emerging Asia less vulnerable to capital outflows

## EM Asia: External financing requirement



Source : Oxford Economics/Haver Analytics

# Asian FX to broadly strengthen in 2020

| <b>Forecasts</b>                    |                |                |                |                |                |                |                 |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| <b>Exchange rate (per USD, eop)</b> |                |                |                |                |                |                |                 |
|                                     | <b>Current</b> | <b>Q4 2019</b> | <b>Q1 2020</b> | <b>Q2 2020</b> | <b>Q3 2020</b> | <b>Q4 2020</b> | <b>eop,y/y%</b> |
| <b>China</b>                        | 7.00           | 7.05           | 7.01           | 6.97           | 6.93           | 6.89           | <b>-2.24</b>    |
| <b>Japan</b>                        | 109.3          | 108.0          | 106.3          | 105.1          | 105.1          | 105.2          | <b>-2.62</b>    |
| <b>India</b>                        | 71.4           | 71.2           | 71.7           | 72.2           | 72.4           | 72.4           | <b>1.60</b>     |
| <b>Taiwan</b>                       | 30.4           | 30.9           | 30.9           | 30.7           | 30.6           | 30.8           | <b>-0.41</b>    |
| <b>Hong Kong</b>                    | 7.83           | 7.84           | 7.83           | 7.82           | 7.81           | 7.80           | <b>-0.52</b>    |
| <b>S Korea</b>                      | 1158.8         | 1213.5         | 1218.4         | 1225.3         | 1223.4         | 1218.5         | <b>0.41</b>     |
| <b>Singapore</b>                    | 1.36           | 1.36           | 1.36           | 1.36           | 1.36           | 1.36           | <b>-0.66</b>    |
| <b>Malaysia</b>                     | 4.13           | 4.20           | 4.23           | 4.20           | 4.18           | 4.15           | <b>-1.03</b>    |
| <b>Indonesia</b>                    | 14014.0        | 14200.0        | 14178.5        | 14131.7        | 14084.9        | 14038.2        | <b>-1.14</b>    |
| <b>Philippines</b>                  | 50.6           | 51.3           | 52.1           | 51.9           | 51.6           | 51.4           | <b>0.18</b>     |
| <b>Thailand</b>                     | 30.4           | 30.6           | 30.8           | 30.7           | 30.8           | 30.8           | <b>0.67</b>     |
| <b>Australia</b>                    | 1.46           | 1.48           | 1.47           | 1.47           | 1.47           | 1.47           | <b>-0.76</b>    |

Source: Haver Analytics. Forecasts: Oxford Economics



# Growth to stabilize in 2020, after a weak 2019

| Asia Pacific Forecasts |                  |      |      |      |                        |      |      |      |
|------------------------|------------------|------|------|------|------------------------|------|------|------|
|                        | Real GDP (% y/y) |      |      |      | Inflation (% y/y, eop) |      |      |      |
|                        | 2008-17          | 2018 | 2019 | 2020 | 2008-17                | 2018 | 2019 | 2020 |
| <b>World</b>           | 2.6              | 3.2  | 2.5  | 2.5  | 3.6                    | 3.2  | 3.2  | 3.2  |
| <b>US</b>              | 1.5              | 2.9  | 2.3  | 1.6  | 1.7                    | 2.4  | 1.7  | 1.8  |
| <b>Eurozone</b>        | 0.7              | 1.9  | 1.2  | 1.0  | 1.4                    | 1.9  | 1.2  | 1.0  |
| <b>EMs</b>             | 5.2              | 4.7  | 4.0  | 4.3  | 6.3                    | 5.8  | 5.3  | 5.0  |
| <b>Asia Pacific</b>    | 5.1              | 4.9  | 4.3  | 4.2  | 3.0                    | 2.4  | 2.4  | 2.9  |
| <b>China</b>           | 8.2              | 6.6  | 6.1  | 5.7  | 2.6                    | 2.1  | 2.8  | 3.2  |
| <b>Japan</b>           | 0.5              | 0.8  | 0.8  | 0.1  | 0.3                    | 1.0  | 0.6  | 0.8  |
| <b>India</b>           | 7.1              | 7.4  | 5.5  | 6.6  | 7.6                    | 3.9  | 3.1  | 3.8  |
| <b>Taiwan</b>          | 2.7              | 2.6  | 2.5  | 1.8  | 1.1                    | 0.6  | 0.6  | 0.8  |
| <b>Hong Kong</b>       | 2.7              | 3.0  | -1.4 | -1.3 | 3.2                    | 2.4  | 2.9  | 2.2  |
| <b>South Korea</b>     | 3.2              | 2.7  | 1.9  | 2.0  | 2.3                    | 1.5  | 0.3  | 1.4  |
| <b>Singapore</b>       | 4.5              | 3.1  | 0.5  | 1.5  | 1.9                    | 0.4  | 0.6  | 1.2  |
| <b>Malaysia</b>        | 4.8              | 4.7  | 4.4  | 4.0  | 2.6                    | 1.0  | 0.7  | 2.2  |
| <b>Indonesia</b>       | 5.6              | 5.2  | 5.0  | 4.9  | 5.6                    | 3.2  | 3.1  | 3.4  |
| <b>Philippines</b>     | 5.6              | 6.2  | 5.6  | 5.8  | 3.5                    | 5.2  | 2.5  | 2.8  |
| <b>Thailand</b>        | 3.1              | 4.1  | 2.9  | 3.0  | 1.9                    | 1.1  | 0.7  | 0.8  |

Source: Haver Analytics. Forecasts: Oxford Economics

# Conclusions

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- Trade war has taken its toll on growth, both globally and within Asia
- Supply chain relocations can benefit some Asian economies in the medium-term
- But external developments, especially a slowing China, continue to constraint growth in the short-run
- Collateral damage is larger for the more open economies, while inward looking economies, like India, are expected to fare better
- Macro policy, however, should help bolster domestic demand and cushion the downside across the board