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HIGH LEVEL DIALOGUE
ON ASEAN ITALY
ECONOMIC RELATIONS**

PRESENTATION BY RAMESH SUBRAMANIAM

HIGH LEVEL DIALOGUE ON ASEAN ITALY ECONOMIC RELATIONS

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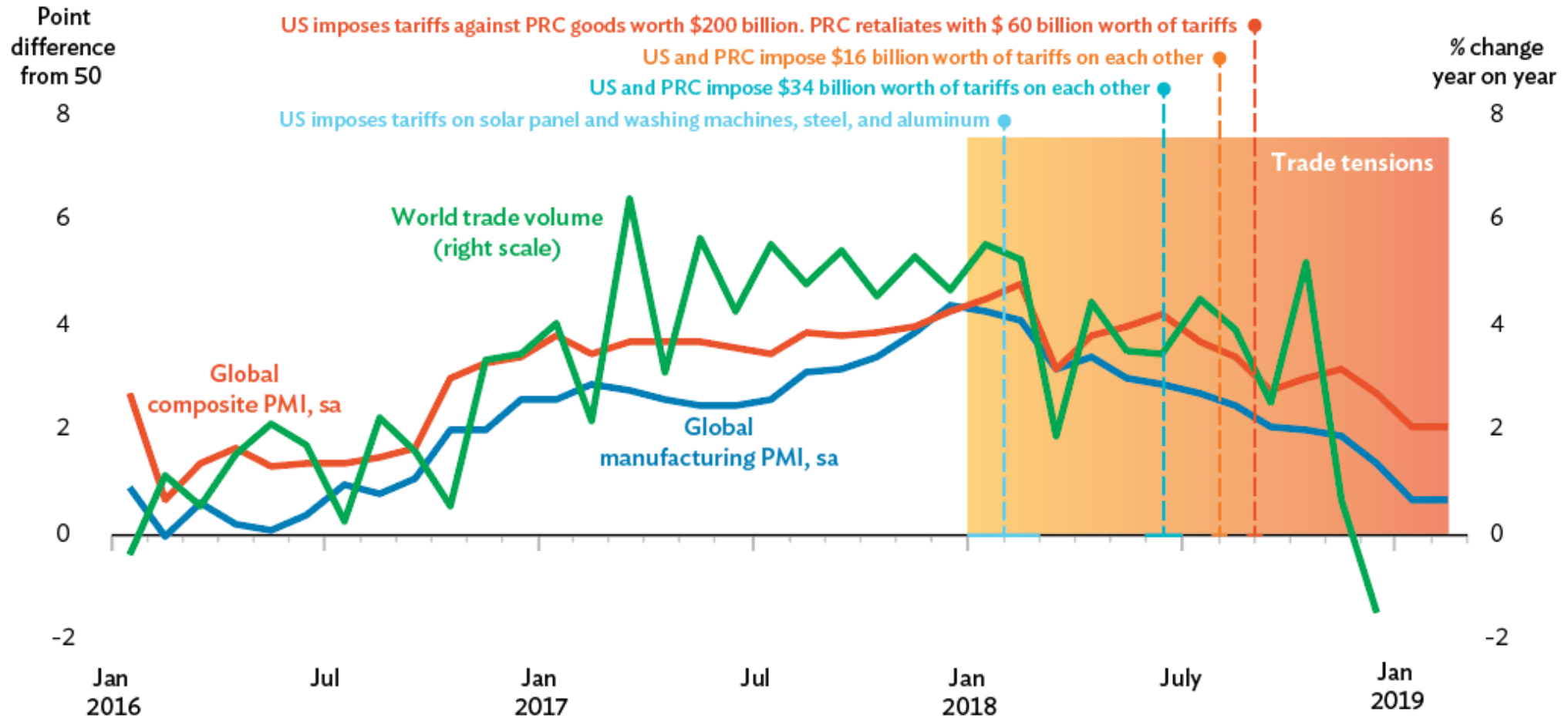
Trade and Global Value Chains in Southeast Asia

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

Global activity indicators



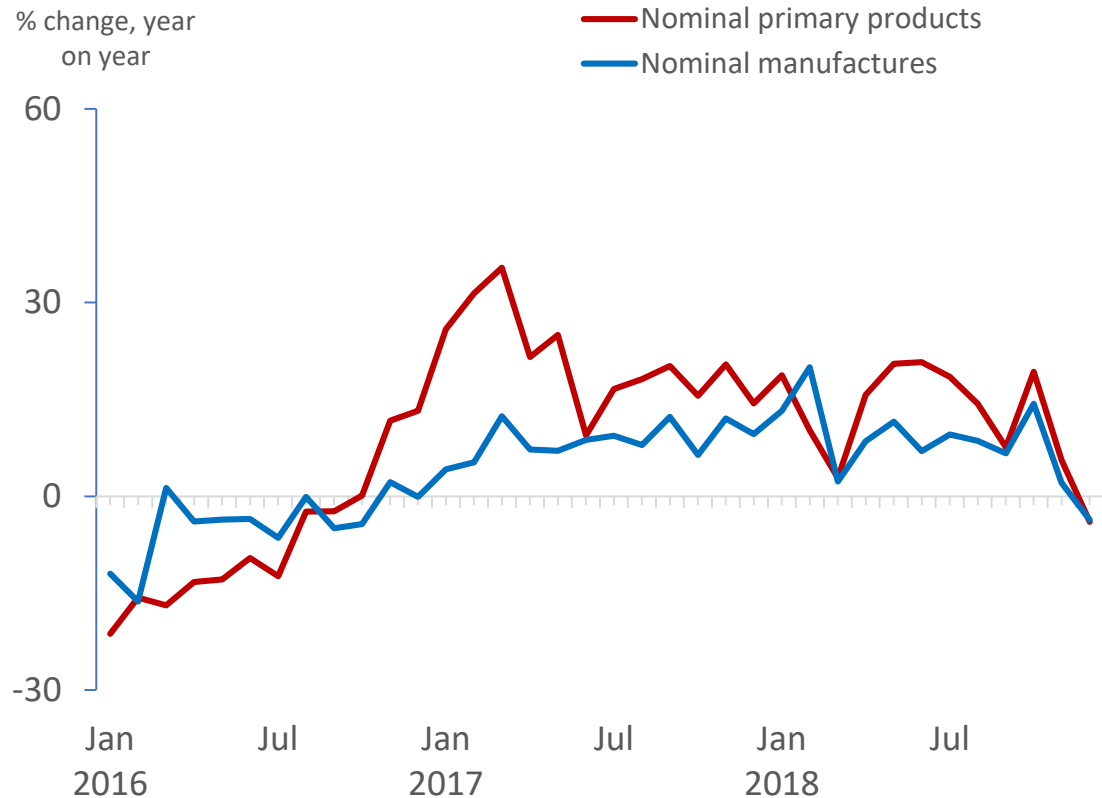
PMI = purchasing managers' index, PRC = People's Republic of China, sa = seasonally adjusted, US = United States.

Sources: Haver Analytics; CEIC Data Company.

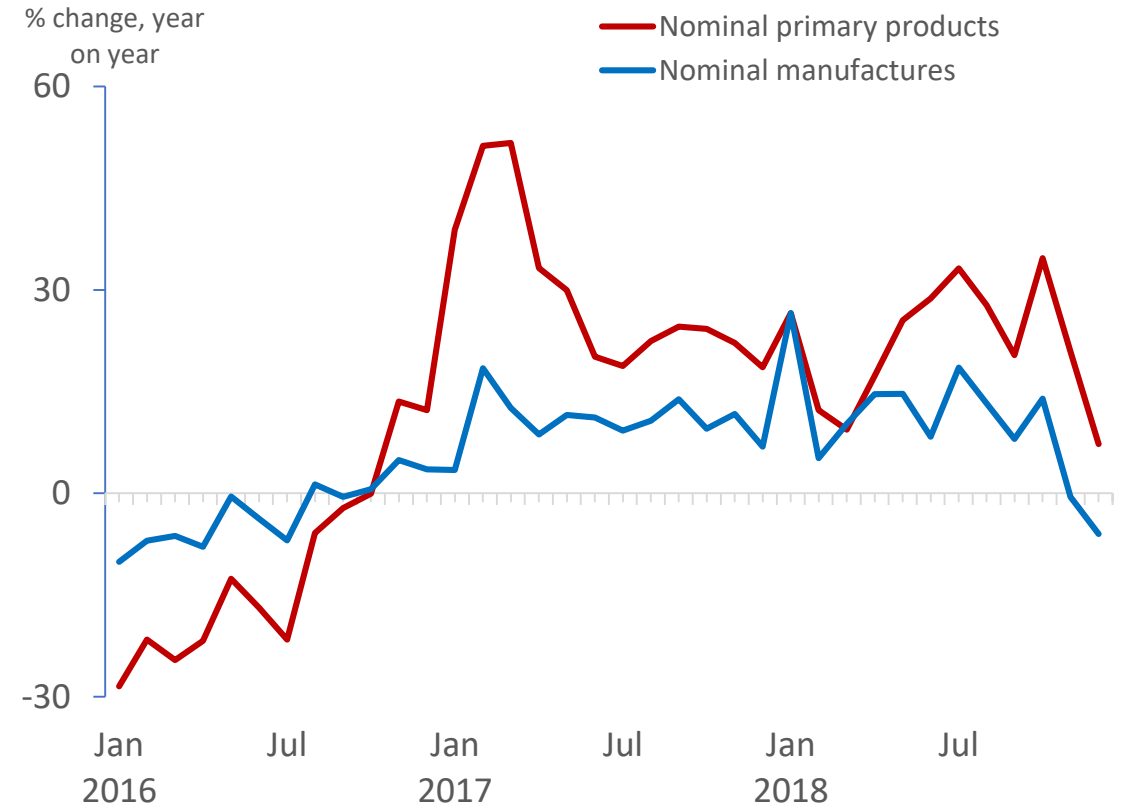


...which weighed on the region's exports...

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.

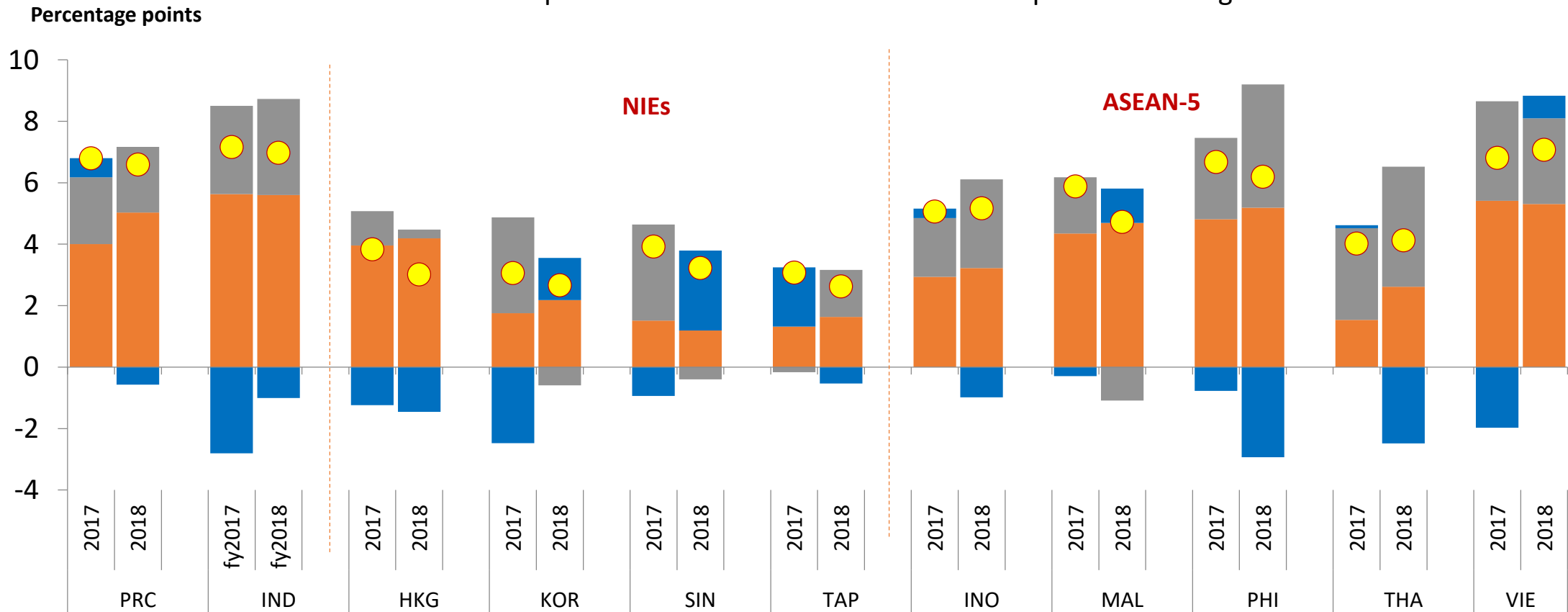
Note: Refers to data for 10 developing Asian economies, namely, Hong Kong, China, India, Indonesia, Malaysia, PRC, Philippines, Republic of Korea, Singapore, Taipei, China, and Thailand.

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



fy = fiscal year

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. Components do not add up to total due to a statistical discrepancy.

Data for India are in fiscal years which covers the period 1 April to 30 March.

Source: Haver Analytics (accessed 10 March 2019); ADB estimates.

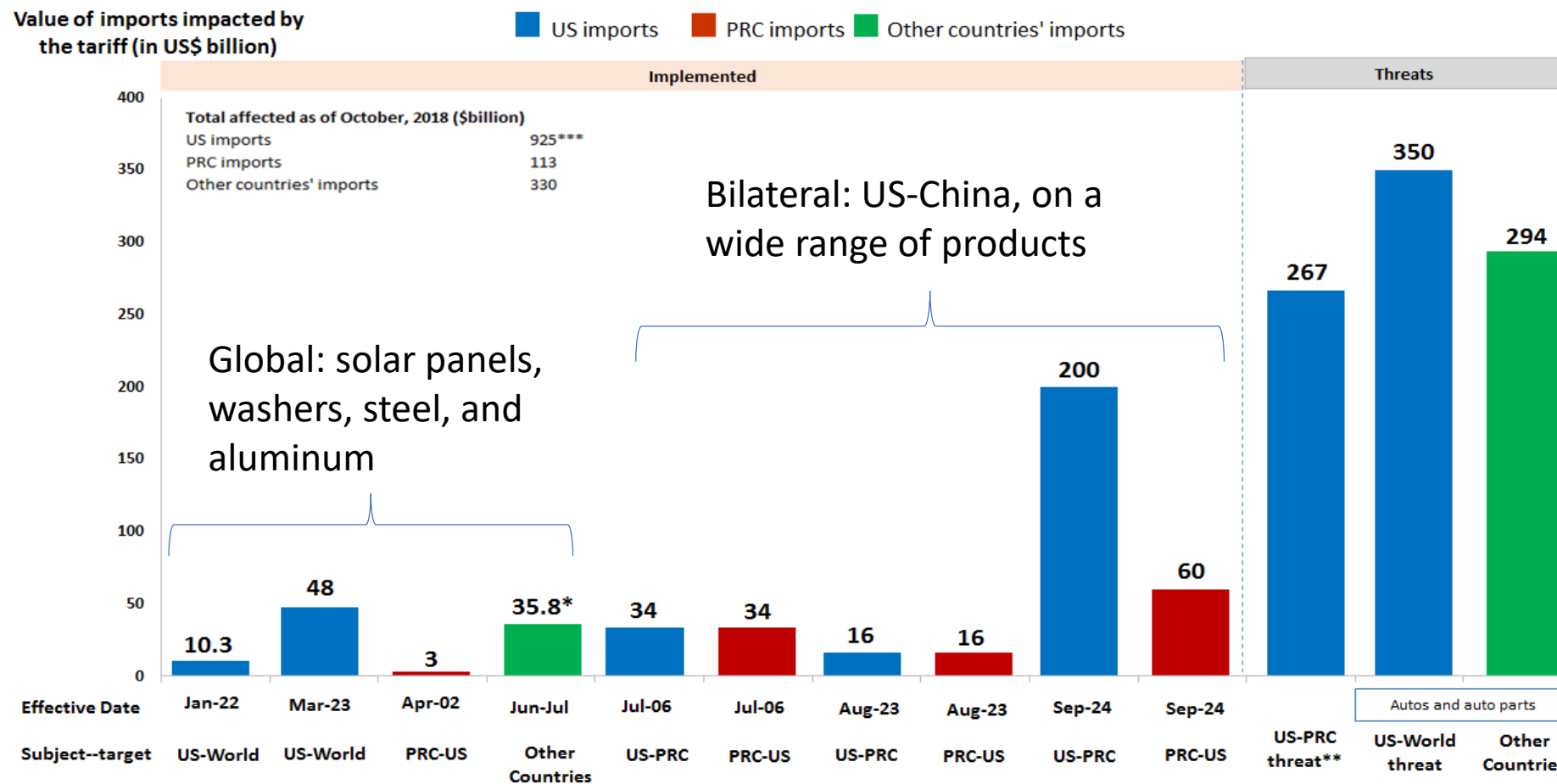
Developing Asia's more open sub-regions will see more of a slowdown in 2019

	2018	2019	2020		2018	2019	2020
East Asia	6.0	5.7 ↓	5.5 ↓	South Asia	6.7	6.8 ↑	6.9 ↑
Hong Kong, China	3.0	2.5 ↓	2.5	Bangladesh	7.9	8.0 ↑	8.0
People's Republic of China	6.6	6.3 ↓	6.1 ↓	India	7.0	7.2 ↑	7.3 ↑
Republic of Korea	2.7	2.5 ↓	2.5	Pakistan	5.2	3.9 ↓	3.6 ↓
Taipei, China	2.6	2.2 ↓	2.0 ↓				
				Central Asia	4.4	4.2 ↓	4.2
Southeast Asia	5.1	4.9 ↓	5.0 ↑	Azerbaijan	1.4	2.5 ↑	2.7 ↑
Indonesia	5.2	5.2	5.3 ↑	Kazakhstan	4.1	3.5 ↓	3.3 ↓
Malaysia	4.7	4.5 ↓	4.7 ↑				
Philippines	6.2	6.4 ↑	6.4	The Pacific	0.9	3.5 ↑	3.2 ↓
Singapore	3.2	2.6 ↓	2.6	Fiji	3.0	3.2 ↑	3.5 ↑
Thailand	4.1	3.9 ↓	3.7 ↓	Papua New Guinea	0.2	3.7 ↑	3.1 ↓
Viet Nam	7.1	6.8 ↓	6.7 ↓				
Developing Asia	5.9	5.7 ↓	5.6 ↓	Excluding NIEs	6.4	6.2 ↓	6.1 ↓

Note: Red arrow= lower than the previous year. Green arrow = higher than the previous year. No sign = no change.

Source: Asian Development Outlook 2019 database.

The trade conflict escalated and became more bilateral in late 2018...

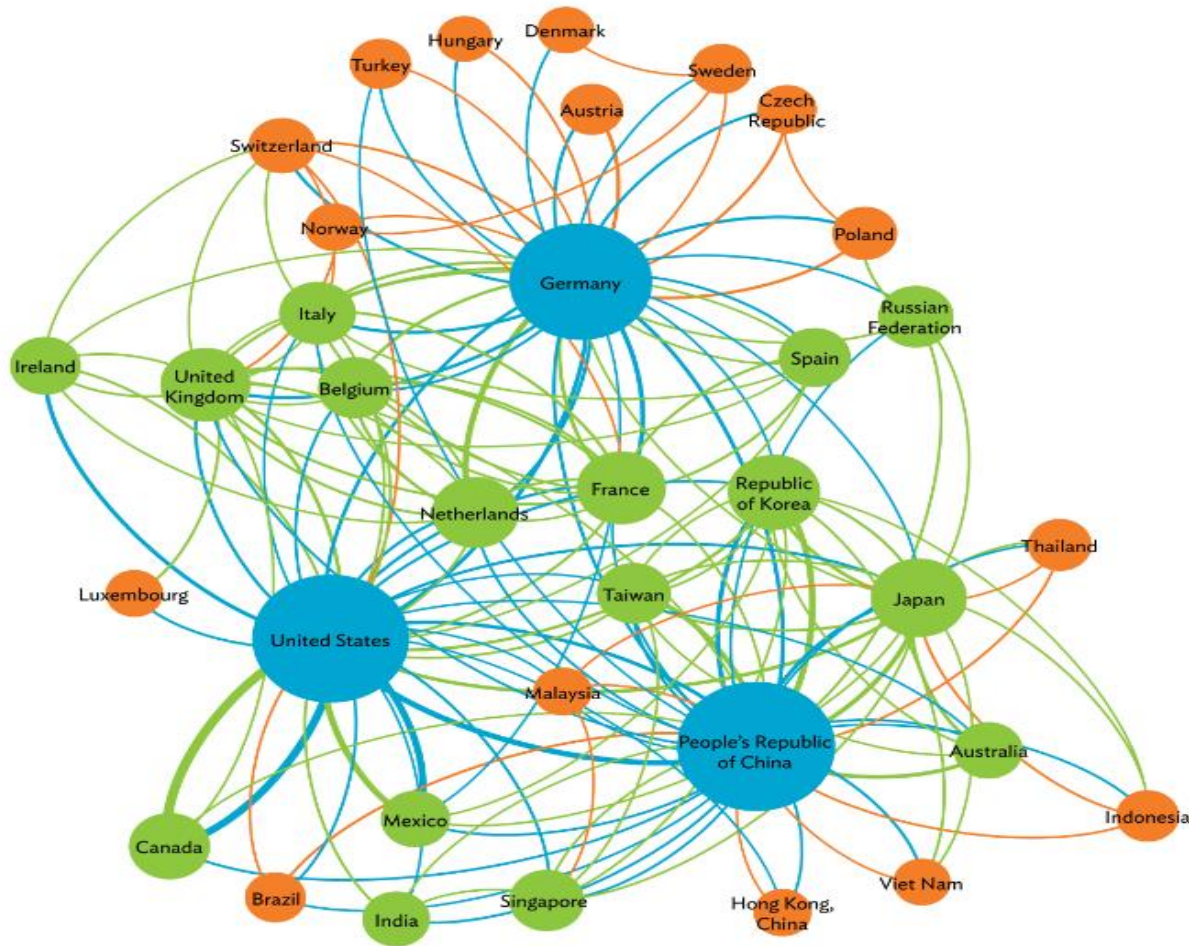


PRC = People's Republic of China, US = United States,

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 needs to be watched, because the PRC and the US serve as important hubs in global value chains.



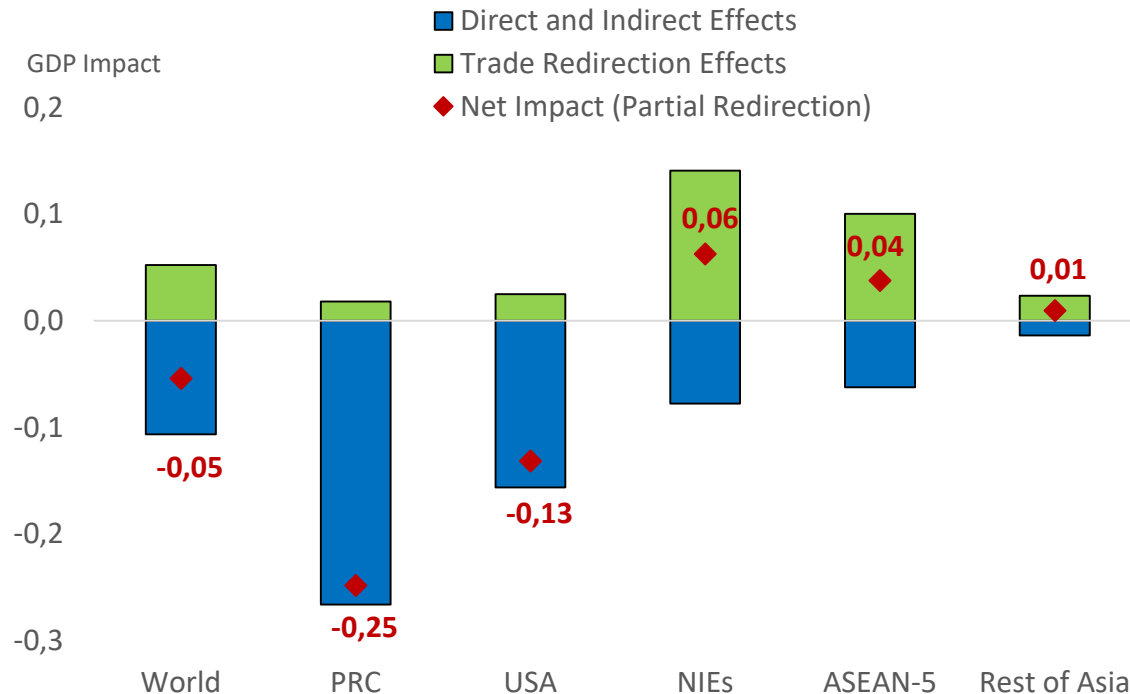
- The US and PRC are two of the three global manufacturing hubs for global value chains.
- An escalated trade war between the two can potentially disrupt the existing network of global value chains, which could reduce global production and trade activity.

Note: Chart shows the top 35 countries in MRIOT 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.

Trade conflict cuts growth in PRC and US...but helps the rest of the region, as investment pickup suggests global production relocation.

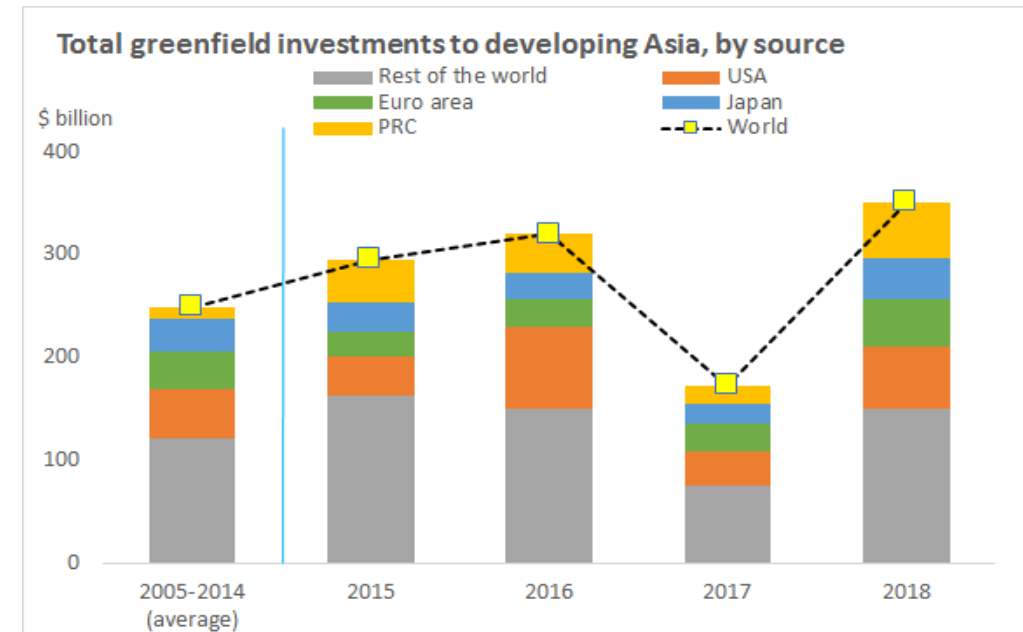
GDP impact of trade conflict by economic region



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.

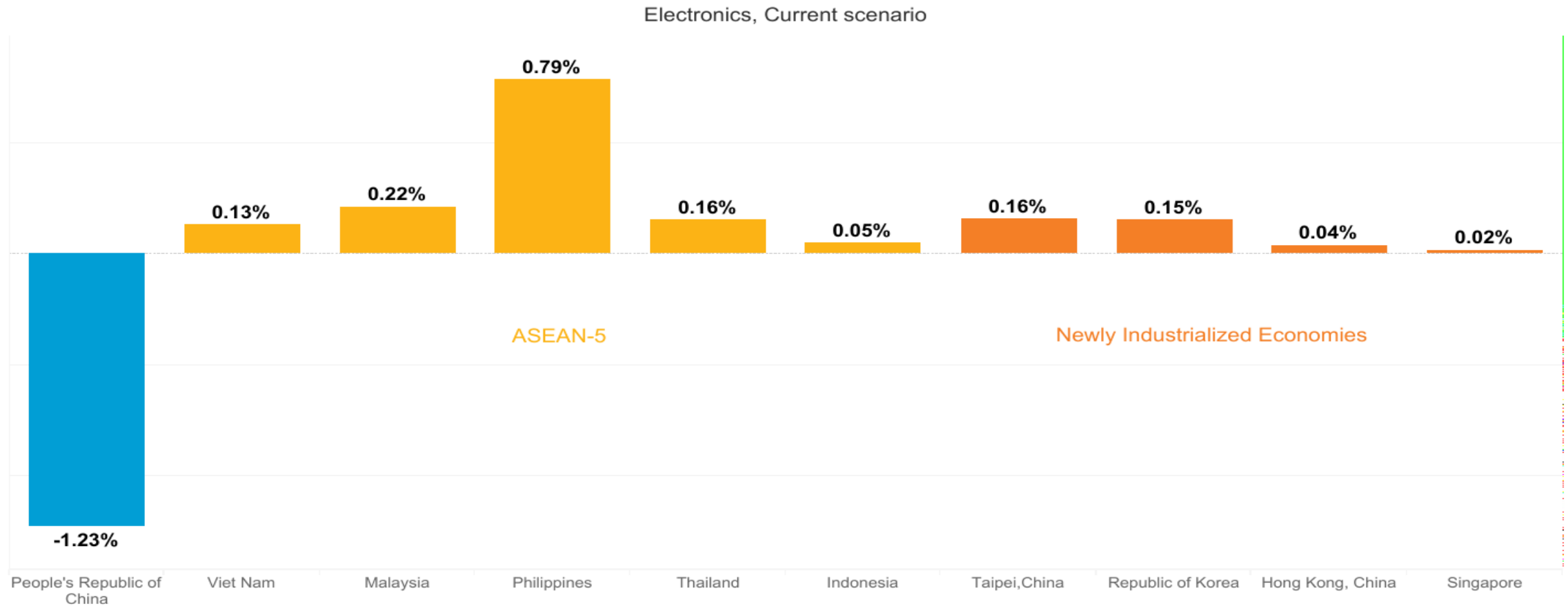
FDI inflows to developing Asia, by source



Source: Staff calculations using data from fDi Markets (available: <https://www.fdimarkets.com/>), and Zephyr (available: <https://www.bvdinfo.com>).

Source: ADB Staff estimates using data as of 2017 from FDI markets and Zephyr.

Impact of trade conflict on electronics exports

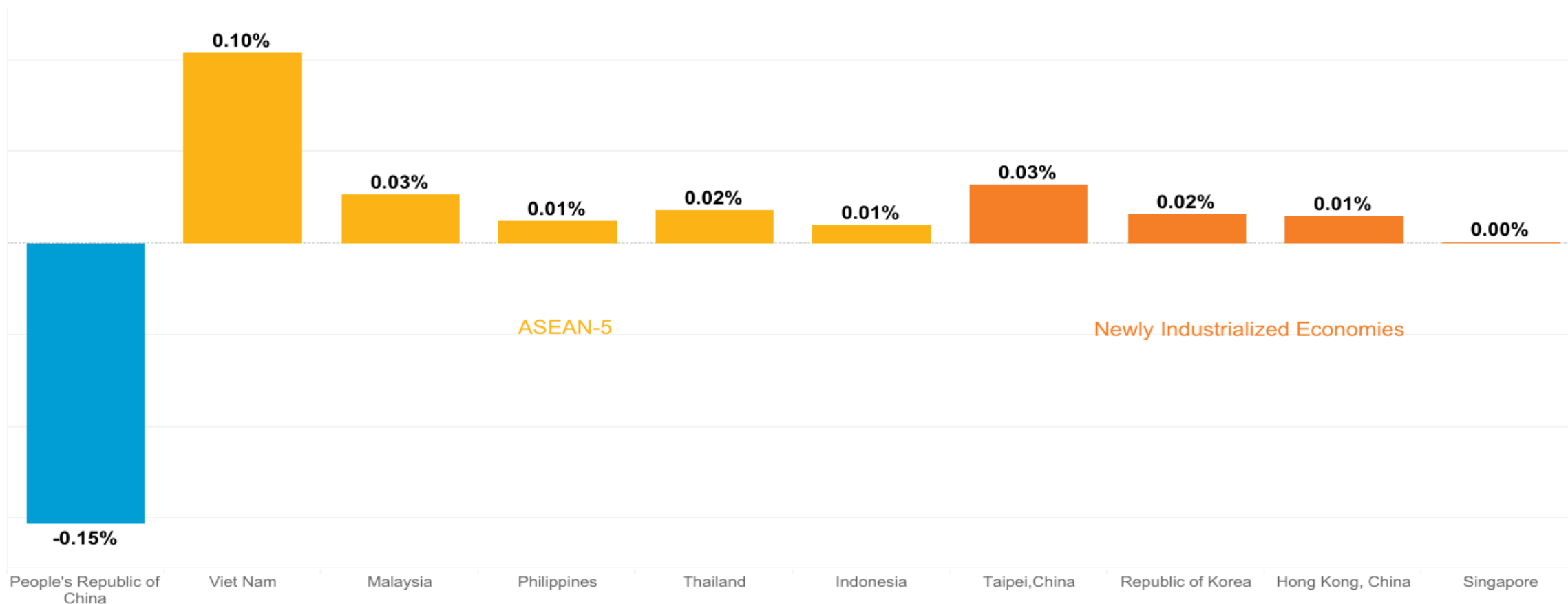


Source: Asian Development Bank. *The Impact of Trade Conflict on Developing Asia*.

Note : The current scenario describes the series of tariffs in place as of December 2018 assumes tariff rates will escalate from 10% to 25% in 2019.

Impact of trade conflict on textiles exports

Textiles, Current scenario



Source: Asian Development Bank. *The Impact of Trade Conflict on Developing Asia*.



Note : The current scenario describes the series of tariffs in place as of December 2018 assumes tariff rates will escalate from 10% to 25% in 2019.

Way Forward

- Southeast Asia countries need to build greater complementarity among themselves and enhance their economic and financial resilience through
 - (i) diversifying their economic and trade structure,
 - (ii) upgrading competitiveness and innovative capacity via domestic and regulatory reforms, and
 - (iii) supporting high quality regional trade agreements to promote regional economic integration.
- Promoting greater regional cooperation and integration to better attain a more open ASEAN Economic Community will help increase market size, exploit economies of scale, and enhance competitiveness and innovation.

Thank you