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ITALIAN TRADE AGENCY
ICE - Agenzia per la promozione all'estero e l'internazionalizzazione delle imprese italiane



HIGH LEVEL DIALOGUE
ON ASEAN ITALY
ECONOMIC RELATIONS

HIGH LEVEL DIALOGUE ON ASEAN ITALY ECONOMIC RELATIONS

1° Digital Round Table
July 2, 2020

PRESENTATION BY VALERIO DE MOLLI

Main Partner



Junior Partner



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1° Digital Round Table

VALERIO DE MOLLI

(Managing Partner and CEO, The European House – Ambrosetti)

*The political and economic relations among Italy, the European Union
and ASEAN countries during the Covid-19 crisis*

Main Partner



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Key points

- **The spread of the coronavirus and the impact on the global economy**
- The implications for Italy-ASEAN relations
- The actions taken by governments to tackle the crisis

Covid-19 has affected the whole world...













Globally

Cases **10,185,374**

Deaths **503,862**

First 10 Countries

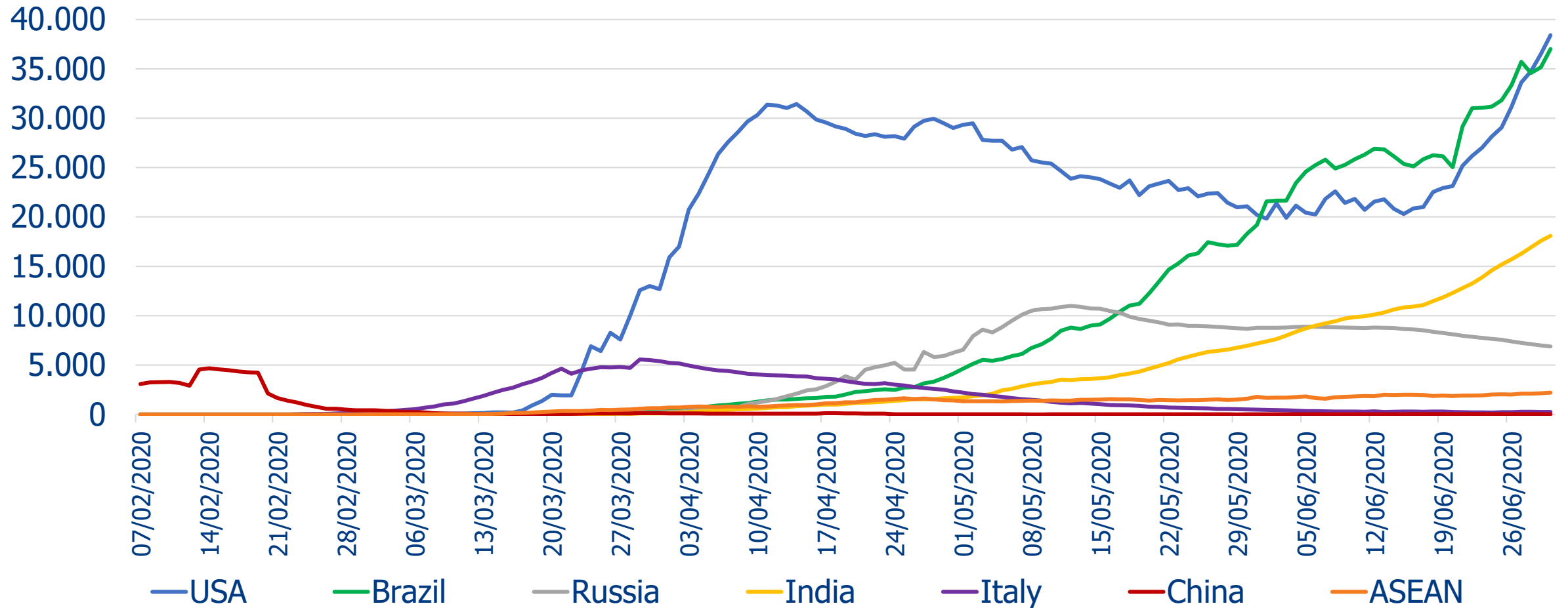
| | Cases (total and % on pop.) | Cases (last 24 hours) | Deaths (total and % on total cases) | Deaths (last 7 days) |
|---|--------------------------------|--------------------------|---|-------------------------|
|  USA | 2,537,636 (0.8%) | 41,008 | 126,203 (5.0%) | 6,442 |
|  Brazil | 1,344,143 (0.6%) | 30,476 | 57,622 (4.3%) | 7,005 |
|  Russia | 647,849 (0.4%) | 6,693 | 9,320 (1.4%) | 961 |
|  India | 566,840 (0.04%) | 18,522 | 16,893 (3.0%) | 2,882 |
|  UK | 311,969 (0.5%) | 814 | 43,575 (14.0%) | 928 |
|  Peru | 279,419 (0.9%) | 3,430 | 9,317 (3.3%) | 1,272 |
|  Chile | 275,999 (1.5%) | 4,017 | 5,575 (2.0%) | 1,073 |
|  Spain | 248,970 (0.5%) | 200 | 28,346 (11.4%) | 22 |
|  Italy | 240,436 (0.4%) | 126 | 34,744 (14.5%) | 87 |
|  Iran | 225,205 (0.3%) | 2,536 | 10,670 (4.7%) | 928 |

... but ASEAN countries reacted better than others

| | Cases (total and % on pop.) | Cases (last 24 hours) | Deaths (total and % on total cases) | Deaths (last 7 days) |
|--------------|---------------------------------------|---------------------------------|---|--------------------------------|
| Indonesia | 55,092 (0.02%) | 1,082 | 2,805 (5.1%) | 305 |
| Singapore | 43,661 (0.8%) | 202 | 26 (0.1%) | 0 |
| Philippines | 36,438 (0.03%) | 983 | 1,255 (3.4%) | 78 |
| Malaysia | 8,637 (0.03%) | 3 | 121 (1.4%) | 0 |
| Thailand | 3,171 (0.005%) | 2 | 58 (1.8%) | 0 |
| Vietnam | 355 (0.0004%) | 0 | 0 (0.0%) | 0 |
| Myanmar | 299 (0.001%) | 0 | 6 (0.0006%) | 0 |
| Brunei | 141 (0.004%) | 0 | 0 (0.0%) | 0 |
| Cambodia | 141 (0.001%) | 0 | 0 (0.0%) | 0 |
| Laos | 19 (0.0003) | 0 | 0 (0.0%) | 0 |
| ASEAN | 147,954 (0.02%) | 2,272 | 4,271 (2.9%) | 383 |

The contagion curve in ASEAN region has always been quite flat compared to other countries in the world

7-day moving average of daily cases in some countries around the world and in the ASEAN region



The pandemic has caused an unprecedented global economic crisis

Supply crisis

- Interruptions of production activities in multiple sectors and in different countries of the world
- Slowdowns in supply chains

Demand crisis

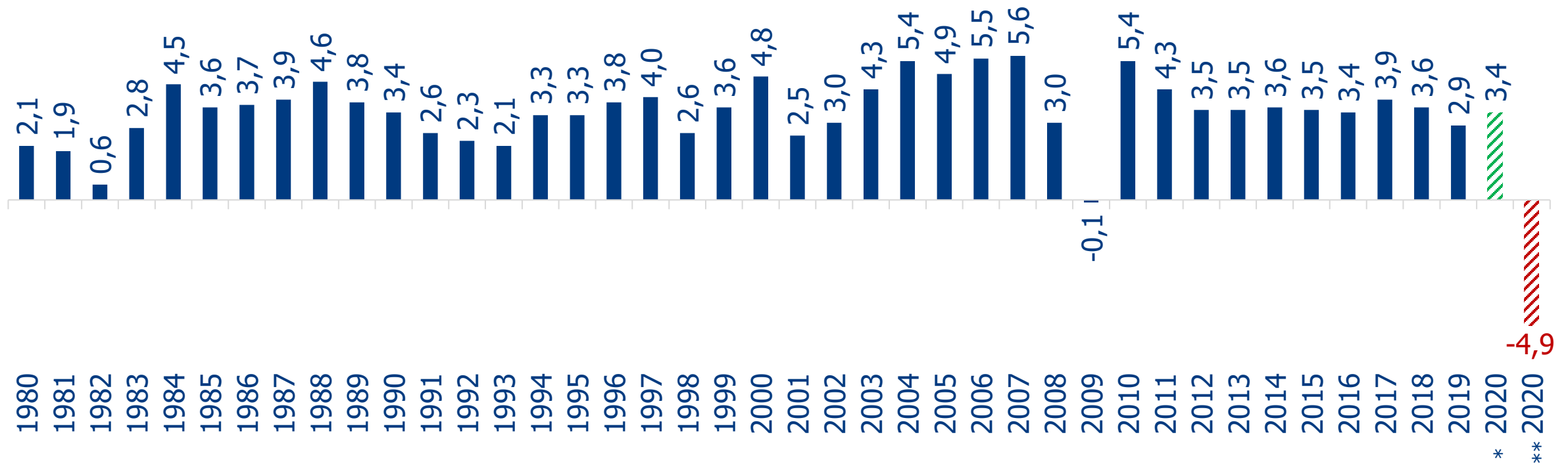
- Reduction of disposable income
- Drastic reduction in demand especially in some sectors (catering, tourism, leisure, ...)
- Slowdown and / or postponement of private investment



This is the first crisis since 1979 (oil crisis) involving both supply and demand. This contributes to the increase in **uncertainty** and the **difficult predictability** of some economic phenomena (investments, inflation, government debt, etc.)

The International Monetary Fund predicts the worst growth of the global economy in the past 40 years ...

Real growth rate of global GDP (% var.), 1980-2020E



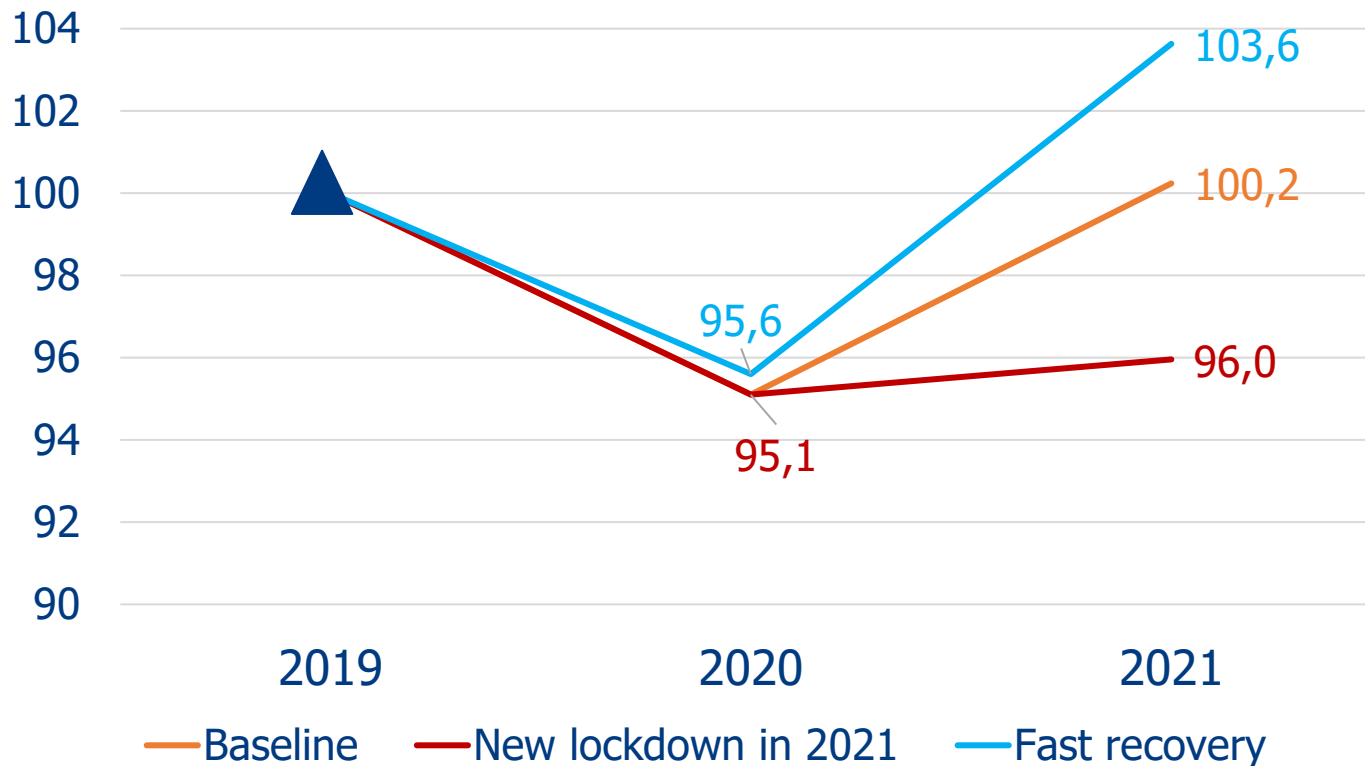
(*) International Monetary Fund forecasts, October 2019

(**) International Monetary Fund forecasts, June 2020

... with a possible worsening in case of a second wave in 2021

World GDP contraction projections in different scenarios

(index number, 2019 = 100)



"Fast recovery in 2021", thanks to successful pandemic containment measures

"Baseline", in which the health emergency is resolved starting from the third quarter of 2020 (downward forecast of 1.9 p.p. compared to the IMF estimate of April 2020)

"New lockdown in 2021" scenario considers a second wave of contagion starting in early 2021

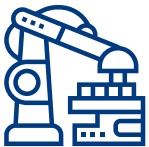
Economic forecasts depend on a plurality of factors that may change, leading to a revision of the estimates ...



- The model starts from Istat data for the first quarter of 2020, which indicate a cyclical change of -5.4% (already corrected downwards compared to -4.7%)
- Duration of the lockdown for Italy and for our commercial partners (especially France, Germany and the USA, which represent 33% of our exports)



- In the model, we took on two months of semi-paralyzed activity (March and April) and a very gradual recovery in May and June, for a return to "normal" starting from July. For the other commercial partners, we assume an equal but translated trend of two weeks
- Shooting speed
 - We have assumed that as of the second half of the third quarter, consumers have resumed their usual spending pattern
 - The model is based on the idea of a "U" recovery with a gradual and slow growth throughout 2021



- Business confidence climate
 - The model considers a reduction in investments, for a time horizon greater than one year: the recovery of investments is expected in 2021
 - It is estimated that 17% of companies are at risk of liquidity and default
 - We also estimate that the service sector is less impacted than manufacturing

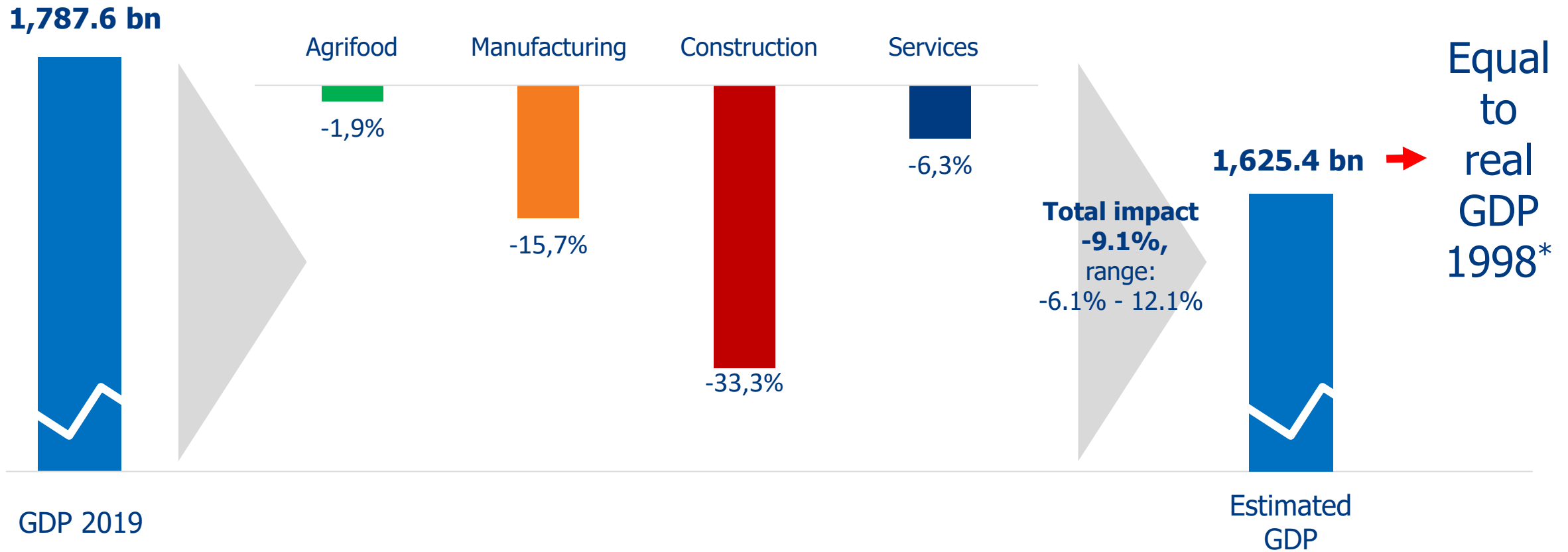


- *Credit crunch*
 - The model does not consider a blocking of corporate financing (also thanks to the monetary policies adopted by the ECB) and therefore does not consider a credit crunch

We are not considered:

- Nature and duration of second or third waves of contagion
- Type of public intervention and introduction of additional monetary policy instruments
- Speed and effectiveness of medical-scientific solutions for treatment and prevention

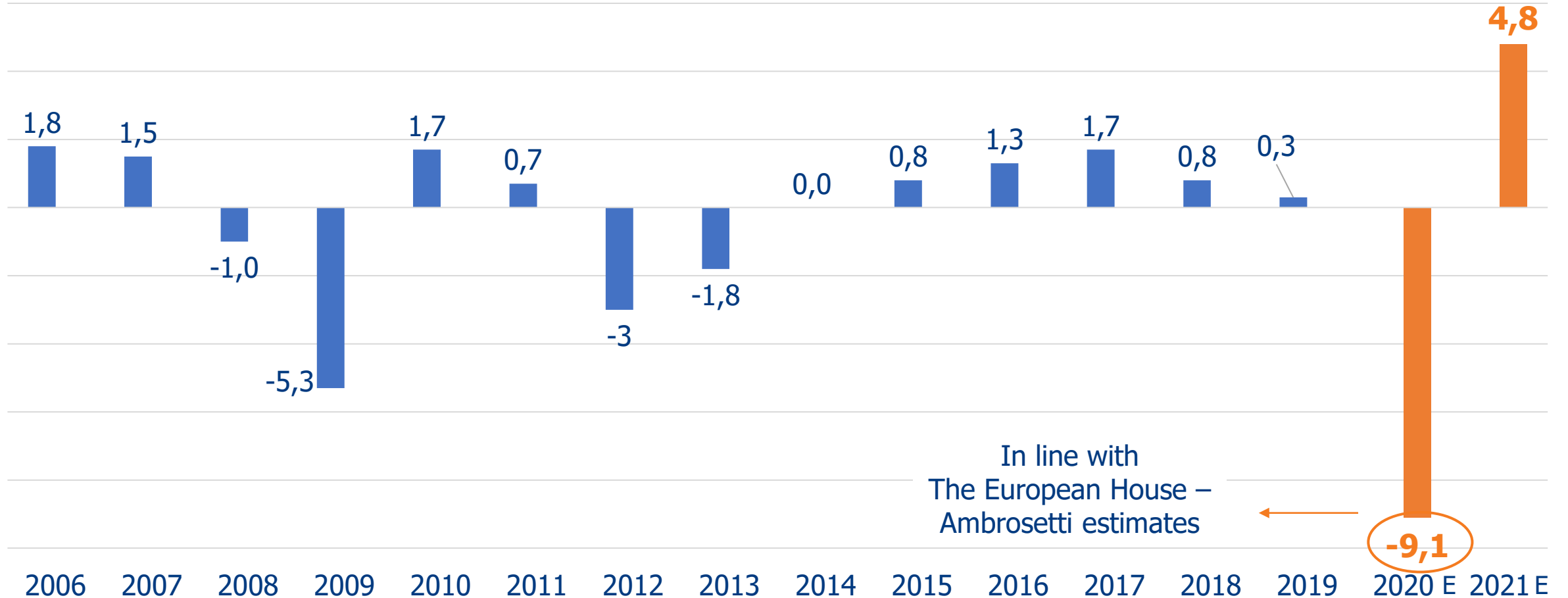
... to date we expect a contraction of -9.1% of GDP for 2020 in Italy, unless radical economic policy actions are implemented



(*) Calculated at 2019 prices

Although it will not be sufficient to offset the losses, GDP growth is expected in Italy in 2021

Italian GDP growth (% var.), 2006-2021E



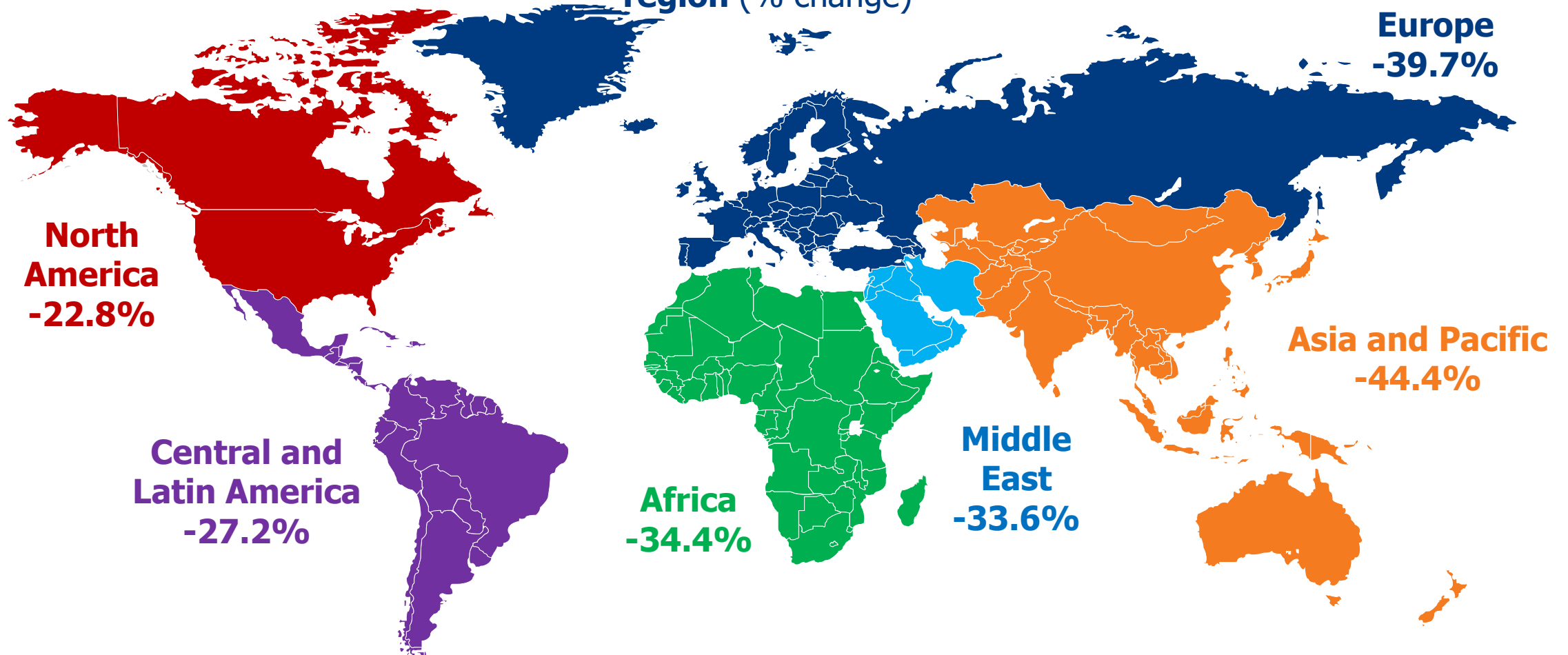
Covid-19 is slowing down ASEAN countries growth, although strong recovery is expected in 2021 (the highest growth rate in the whole world)

ASEAN GDP growth (% var.), 2019, 2020E (before and after Covid-19) and 2021E

| | 2019 | 2020E (before Covid-19) | 2020E (June 2020) | 2021E (June 2020) |
|----------------------|------------|----------------------------|----------------------|----------------------|
| Brunei | 3.9 | 1.5 | 1.3 | 3.5 |
| Cambodia | 7.0 | 6.8 | -1.6 | 6.1 |
| Indonesia | 5.0 | 5.3 | 0.5 | 8.2 |
| Laos | 4.7 | 6.2 | 0.7 | 5.6 |
| Malaysia | 4.3 | 4.8 | -1.7 | 9.0 |
| Myanmar | 6.5 | 6.8 | 1.8 | 7.6 |
| Philippines | 5.9 | 7.0 | 0.6 | 7.6 |
| Singapore | 0.7 | 1.5 | -3.5 | 3.0 |
| Thailand | 2.4 | 3.2 | -6.7 | 6.1 |
| Vietnam | 7.0 | 6.8 | 2.7 | 7.0 |
| ASEAN average | 4.7 | 5.0 | -0.6 | 6.4 |

Covid-19 crisis has also affected air transport, especially in Europe and Asia and Pacific

Change in Available Seat-Kilometers (ASK) in March 2020 compared to March 2019 by world region (% change)



Key points

- The spread of the coronavirus and the impact on the global economy
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Italy has many reasons for being proud on the international scene



1st in the EU as **number of manufacturing SMEs** – 387,000, almost double than France (214,000) and Germany (197,000) and almost double the sum of Spain (166,000) and UK (134,000)



€64.6 bn of agri-food value added, more than 2 times automotive of France and Spain and almost double of France, Germany and British aerospace sector



In the World **top 5** of countries with **manufacturing surplus over \$100 bn and 2nd country in the EU and 5th in the world** for manufacturing **value added**



1st country in the world for **n. of UNESCO sites** (55 in total)



According to the Trade Performance Index, in **8 sectors among 14**, Italy is 1st (clothing and footwear), 2nd (transport, electronics, etc.) or 3rd (general manufacture) in competitiveness



1st country in the EU as **health level of the population** and 1st in the EU for **production of medicines** (\$32 bn of production value)



1st country in the EU as **n° references per researcher** and 1st country in the world as **n° of scientific publications** in the last twenty years



Deficit/GDP ratio (mean 2011-2019): **-2.6%** of Italy vs. -3.7% of France, -4.6% of the UK and -5.7% of Spain



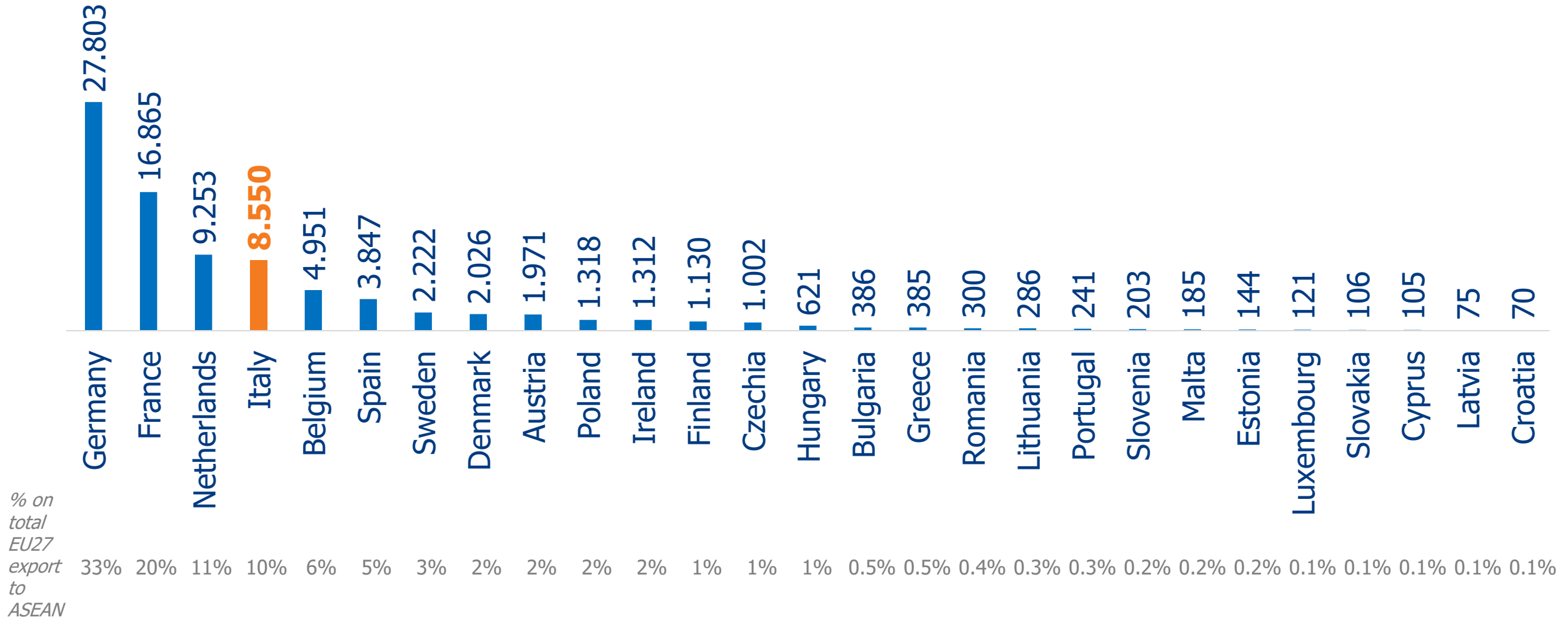
1st country in the EU for **tax measures in favour of investments in digital business**



The **net wealth of Italian families** is among the highest in the world (8.4 times the disposable income); 37% higher than that of German families, equals to 6.1 times the disposable income

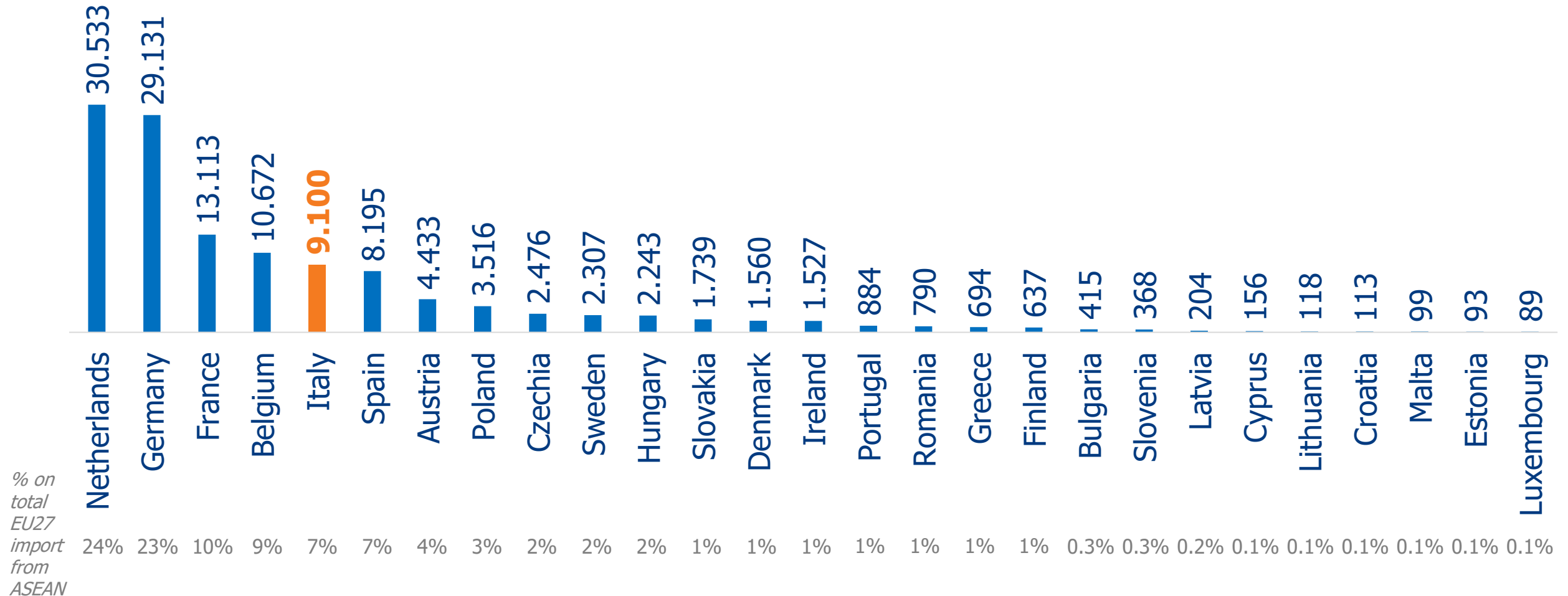
However, Italy-ASEAN relations are underdeveloped both in terms of export...

Export from EU27 countries to ASEAN countries (million of Euros and % on total EU27 export), 2019



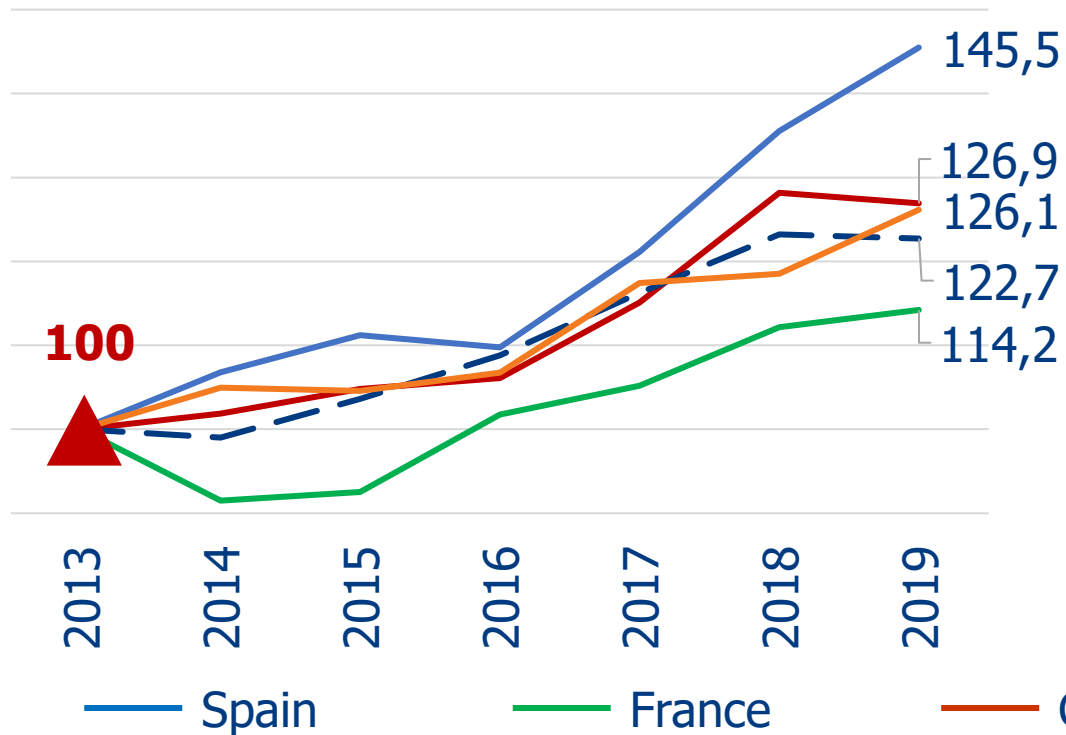
... and import

Import from ASAEN countries to European countries (million of Euros and % on total EU27 import), 2019

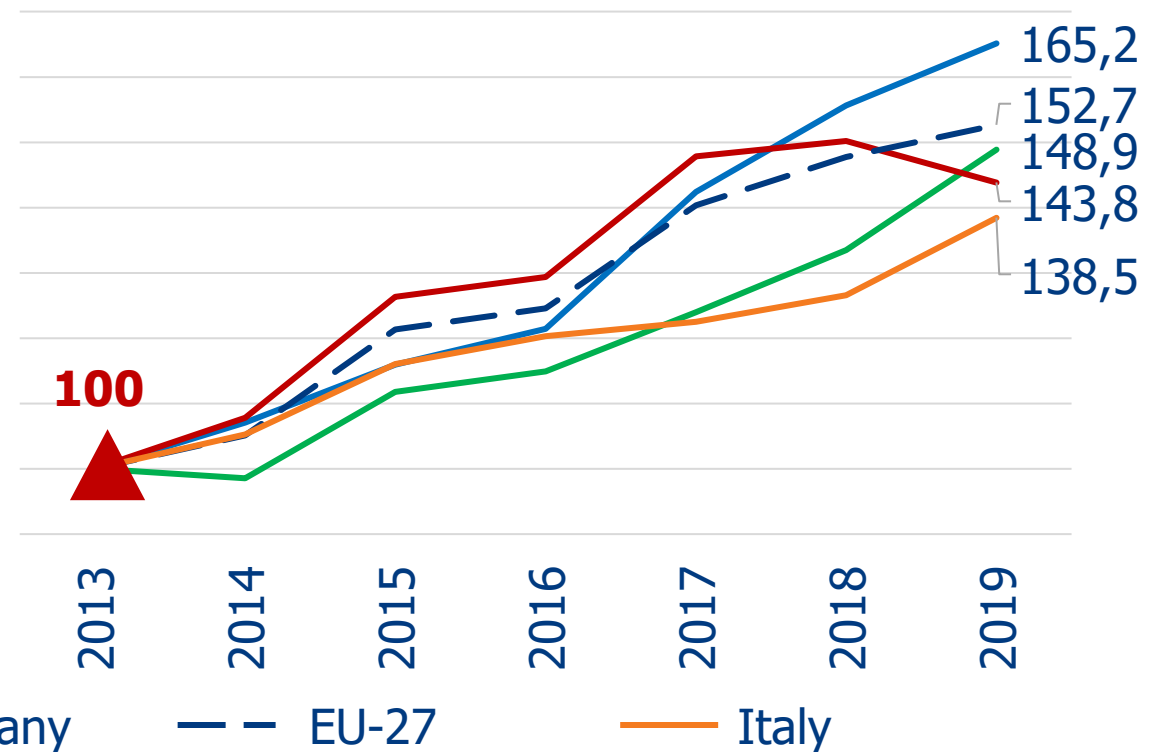


Until the end of 2019, trade relations between Italy and ASEAN countries were growing in line with the rest of the European Union

Export from European countries to ASEAN countries, 2013-2019 (2013=100)



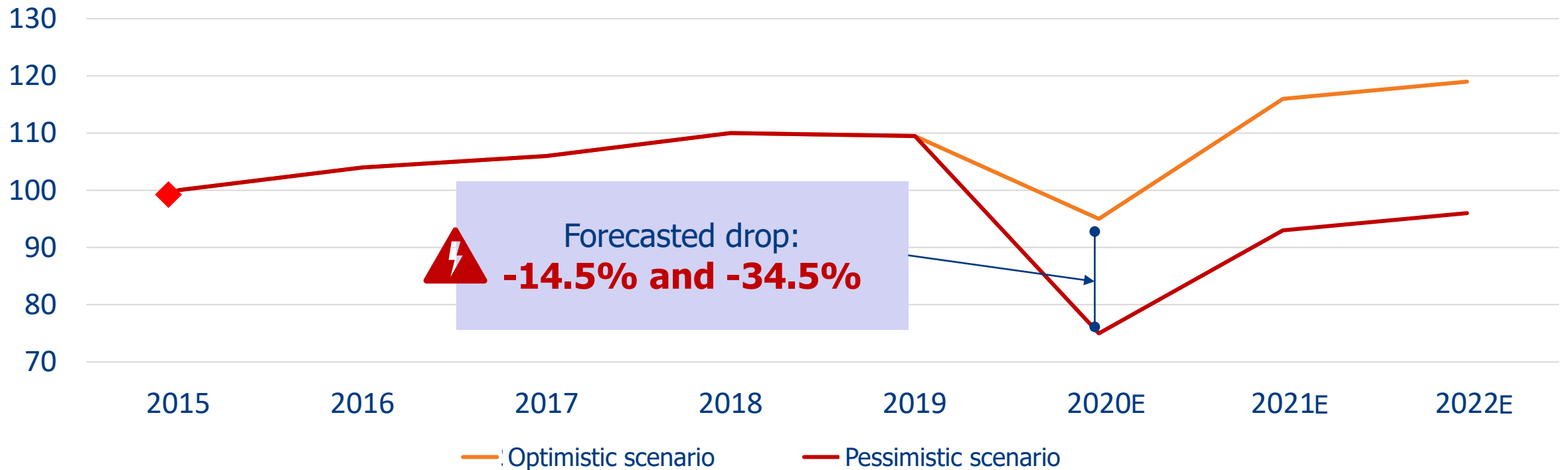
Import from ASEAN countries in European countries, 2013-2019 (2013=100)



Positive effect of the High Level Dialogue on ASEAN Italy Economic Relations on total trade:
CAGR* 2016-2019: **5.2%** vs CAGR* 2013-2016: **4.3%**






Covid-19 crisis is causing an historic collapse in international trade...

World trade in goods (two scenarios)
(index numbers. 2015 = 100), 2015-2022



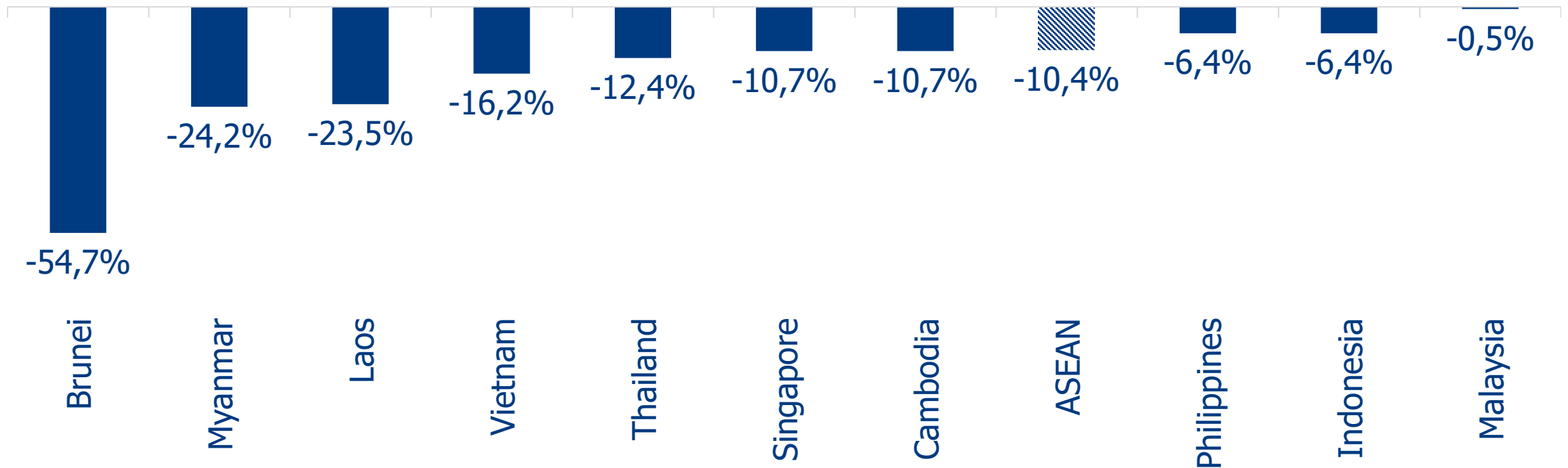
... with implications also for Italy-ASEAN relations

Change in trade between EU and ASEAN countries in the first 4 months of 2020 compared to the same period in 2019, Jan.-Apr. 2020-2019 (%)

| | Export to ASEAN countries | Import from ASEAN countries | Total trade |
|--|---------------------------|-----------------------------|---------------|
|  EU-27 | -10.4% | 0.2% | -4.1% |
|  Italy | -17.5% | -4.5% | -10.4% |
|  Germany | -10.3% | -6.6% | -8.3% |
|  France | -17.3% | -12.2% | -14.9% |
|  Spain | -3.1% | -14.9% | -11.6% |

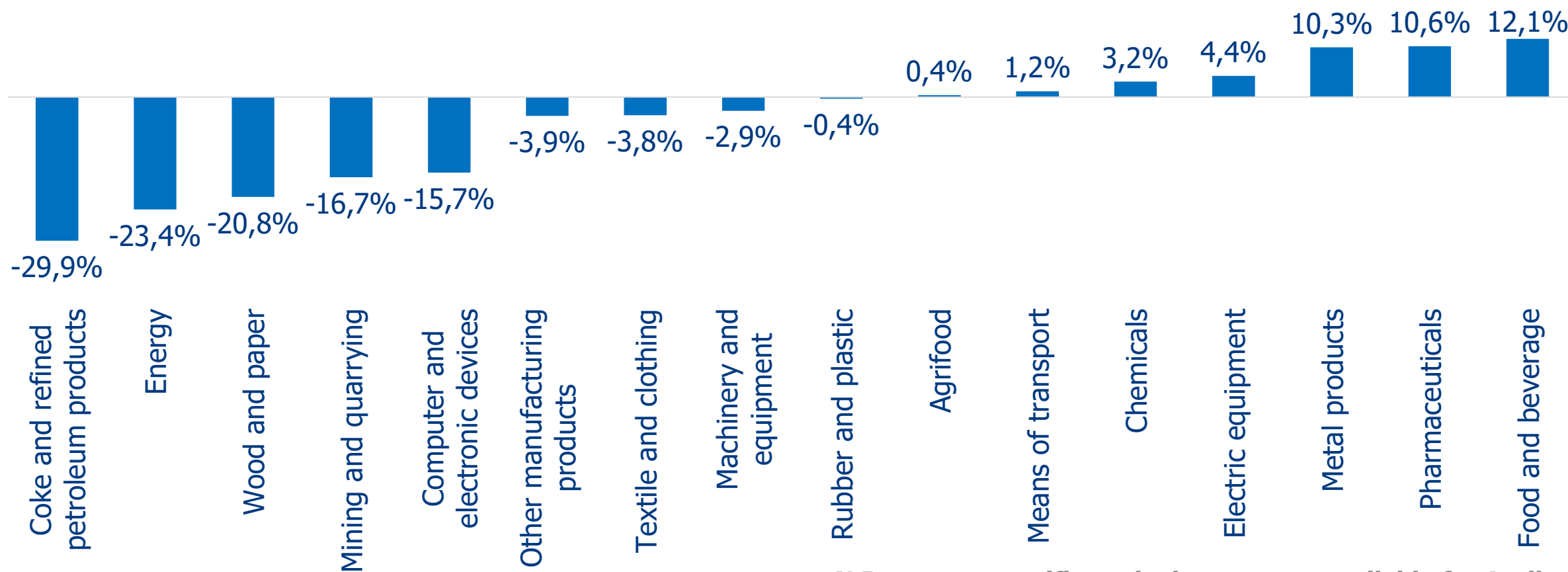
Italian trade with Philippines, Indonesia e Malaysia has suffered lower losses than the ASEAN average

Change in trade between Italy and ASEAN countries in the first 4 months of 2020 compared to the same period in 2019, Jan.-Apr. 2020-2019 (% change of export+import)



Some sectors have been more resilient to the reduction in trade between Italy and the ASEAN countries

Change in trade between Italy and ASEAN countries by sector in the first 3 months of 2020 compared to the same period in 2019, Jan.-March. 2020-2019 (% change of export+import)



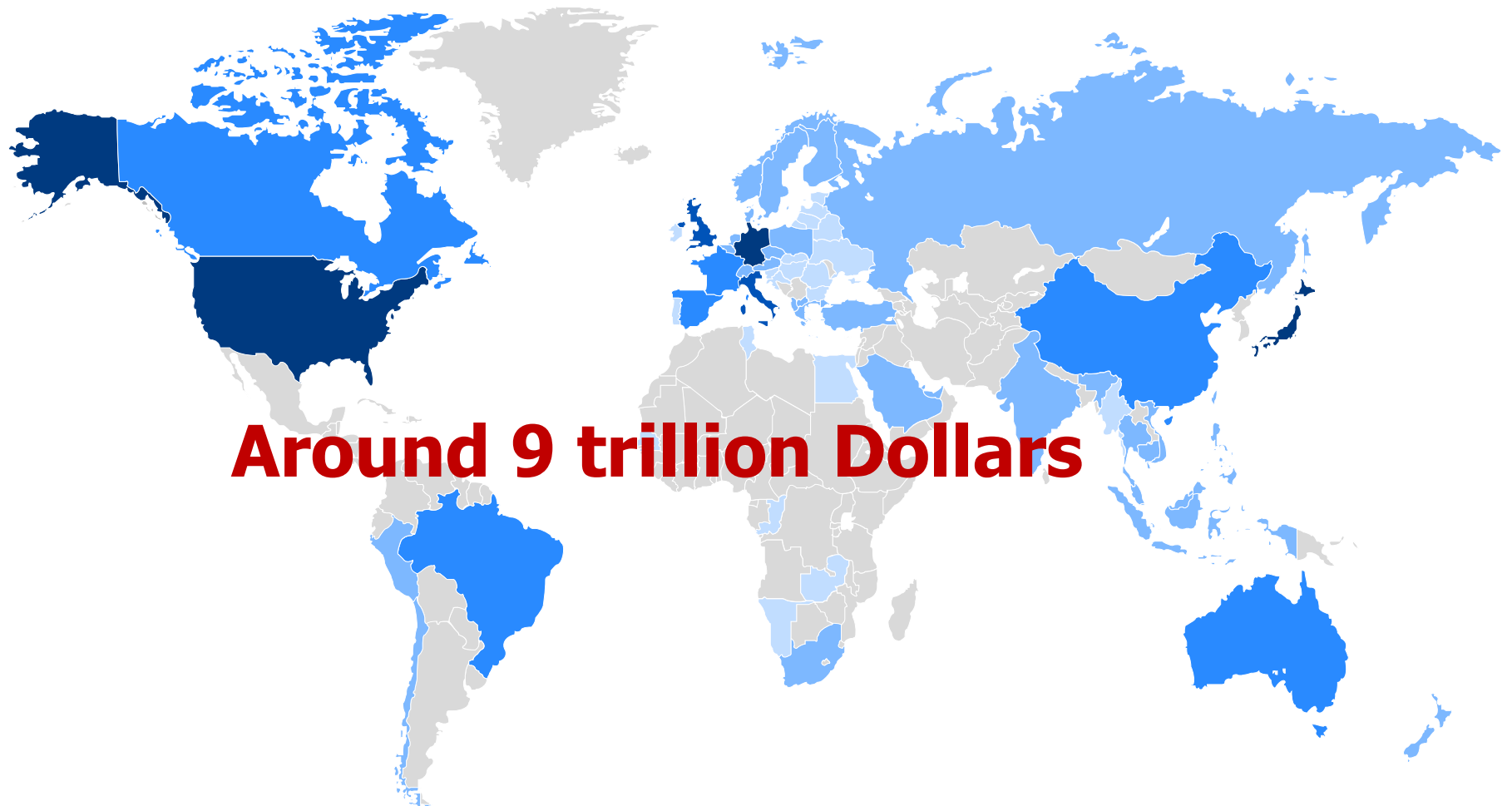
N.B.: sector-specific trade data are not available for April 2020 but only until March 2020.

Key points

- The spread of the coronavirus and the impact on the global economy
- The implications for Italy-ASEAN relations
- **The actions taken by governments to tackle the crisis**

Governments and institutions of all major countries in the world have mobilized to support the economy in this emergency

Resources mobilised by main countries to respond to the crisis (\$bn), last available data



Legend:

- >\$1 tri
- \$500 bn - \$1 tri
- \$100 bn - \$500 bn
- \$10 bn - \$100 bn
- <\$10 bn

The European Union has responded to Covid-19 crisis with specific measures



- **€540 billion package:**
 - ❑ **€100 billion** - Support to mitigate unemployment risks in an emergency (**SURE**)
 - ❑ **€200 billion** - Pan-European guarantee fund for loans to companies (**European Investment Bank**)
 - ❑ **€240 billion** - Pandemic crisis support for member states (**European Stability Mechanism**)
- **Redirection of EU funds** to help member states:
 - ❑ **€37 billion** from structural funds to support EU countries and their citizens in their fight against the outbreak
 - ❑ **up to €800 million** through the EU Solidarity Fund, which has been amended to provide support to member states affected by public health crises like the one caused by COVID-19
 - ❑ **additional €3.1 billion** unlocked from the 2020 budget to respond to the COVID-19 crisis

€580.9 billion (4.2% of EU27 GDP)

Italy has launched three major packages of measures to support the economy



"Cura Italia" Decree

The package provides with an economic aid of **€20 billion** for these purposes:

- Strengthening the national health system
- Support for workers and income guarantee
- Support for household and business liquidity through the banking system
- Suspension of tax and contribution payments

Liquidity Decree

The decree contains numerous measures for access to credit for businesses and facilities to ensure the continuity of businesses affected by the Covid-19 emergency by providing for more than **€400 billion** in guaranteed loans

Relaunch Decree

The latest decree allocates **€55 billion** and the main areas of intervention are:

- Employment and social protection
- Business investment, including green ones
- Liquidity and tax exemption for companies
- Schools and universities
- Tourism and culture sector

€475 billion

March
17th

April
8th

May
14th

ASEAN has launched an action plan for strengthening ASEAN economic cooperation and supply chain connectivity in response to the Covid-19 pandemic



Objective

Containing and mitigating the **economic impact** of the COVID-19 pandemic on the region and strengthening **supply chain connectivity** to make supply chains more resilient and less vulnerable to similar challenges in the future

Short term guidelines

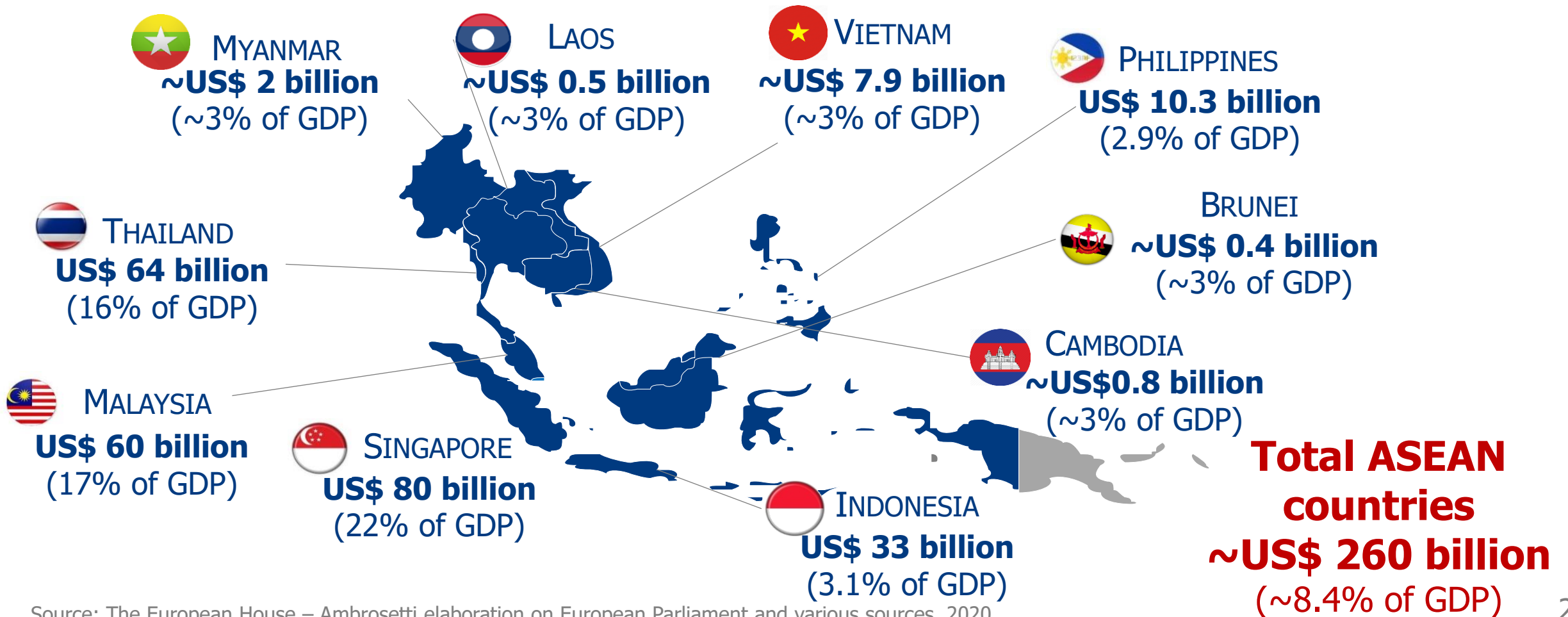
- **Stimulate free trade** among ASEAN countries and the rest of the world by removing all types of non-tariff barriers
- Promote **sharing of information** and best practices in handling the pandemic
- Making available to all **essential goods** and fostering collaboration by redistributing productive surpluses and facilitating the exchange of goods in the region

Long term guidelines

- Collaborate with external and development partners to strengthen **regional and global supply chain resilience and sustainability**
- Promote the use of **technology, innovation and digital economy** to allow businesses, especially the MSMEs to continue operations amidst the economic challenges
- Identify and implement appropriate measures to boost confidence in Southeast Asia as a **trade and investment hub**, and tourism destination in the region, in close collaboration with relevant industry stakeholders

The governments of all the ASEAN countries put in place extraordinary aid to support the economy

Volumes of economic supports put in place by ASEAN countries for the Covid-19 crisis



ASEAN, the European Union and Italy have strengthened their relations during the pandemic

March 2020

- **Ministerial-level digital meeting** between the EU High Representative, Josep Borell, the EU Crisis Management Commissioner, Janez Lenarčič, Singaporean Foreign Affairs Minister, Vivian Balakrishnan, and others to share experience on the Covid-19 pandemic management
- Involvement of south-east Asian scientists in **18 coronavirus research projects** funded by the EU's Horizon 2020 programme

April 2020

Launch of a **'Team Europe'** coronavirus package, re-allocating €20 billion from existing development aid programmes of the European Commission, the European Investment Bank and the Member States: **€350 million** of this have gone to South-East Asia for providing healthcare, food and economic support

June 2020

Two digital meetings with the **Italian State Secretary** Manlio Di Stefano and the **Deputy Minister of Foreign Affairs of Indonesia**, Mahendra Siregar, and the Deputy Minister of Foreign Affairs of **Malaysia**, Dato' Kamarudin Bin Jaffar, on the cooperation in the fight against the pandemic, the development of bilateral political and economic relations and regional cooperation

Cooperation not only for Covid-19: the Free Trade Agreement between the European Union and Vietnam

After talking about it in **Hanoi** together with the **Italian Prime Minister Giuseppe Conte and the Vietnamese Prime Minister Nguyễn Xuân Phúc** on the occasion of the **third edition of the High Level Dialogue on ASEAN-Italy Economic Relations**, on February 12, 2020 the European Commission gave its consent to the **Trade Agreement and an Investment Protection Agreement** between the European Union and Vietnam



After this and the previous one with Singapore, we hope that there can be further trade agreements with ASEAN countries and that regional EU-ASEAN trade agreements can be reached



The European House

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Thanks for the attention

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