Key Messages

• Developing Asia’s growth forecasts are revised down, to 5.4% in 2019 and 5.5% in 2020

• Signs of moderating growth are already evident in many economies in the region, including the PRC and India

• Inflation to pick up slightly due to food prices, but remains muted at 2.7% in 2019 and 2020

• Downside risks to the outlook have increased, with the primary risk centering on the US-PRC conflict
Growth prospects in developing Asia dim…

The revisions are due to:

- Slowing global activity and trade
- Re-escalation of the US-PRC trade conflict
- Sharp contraction in global electronics
- Weakening domestic investment

### GDP growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Developing Asia excl. NIEs (Update)</th>
<th>Developing Asia excl. NIEs (ADO 2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>6.5</td>
<td>6.0</td>
</tr>
<tr>
<td>2017</td>
<td>6.6</td>
<td>6.2</td>
</tr>
<tr>
<td>2018</td>
<td>6.4</td>
<td>5.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Developing Asia excl. NIEs (Update)</th>
<th>Developing Asia excl. NIEs (ADO 2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019f</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>2020f</td>
<td>6.5</td>
<td>5.7</td>
</tr>
</tbody>
</table>

### GDP growth (%)

<table>
<thead>
<tr>
<th>Region</th>
<th>2018 Actual</th>
<th>2019 ADO</th>
<th>2019 Update</th>
<th>2020 ADO</th>
<th>2020 Update</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced economies</td>
<td>2.2</td>
<td>1.9</td>
<td>1.7</td>
<td>1.6</td>
<td>1.4</td>
</tr>
<tr>
<td>United States</td>
<td>2.9</td>
<td>2.4</td>
<td>2.3</td>
<td>1.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Euro area</td>
<td>1.9</td>
<td>1.5</td>
<td>1.0</td>
<td>1.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Japan</td>
<td>0.8</td>
<td>0.8</td>
<td>1.2</td>
<td>0.6</td>
<td>0.5</td>
</tr>
</tbody>
</table>

NIEs = newly industrialized economies of Hong Kong, China; Republic of Korea; Singapore; and Taipei, China

... as global activity and trade weaken, amidst rising trade tensions...

Global activity and trade indicators

PMI = purchasing managers' index, PRC = People's Republic of China, sa = seasonally adjusted, US = United States.
Sources: Haver Analytics; CEIC Data Company.
...and a contraction in global electronics.

Annual growth in exports of electronics goods and semiconductors

Factors behind the slowdown:
- Market saturation
- Less frequent upgrading
- Delayed 5G rollout

DMC = Asian Development Bank developing member country, GDP = gross domestic product
Note: The DMC average is a simple average across the 22 DMCs for which data are available.
Source: ADB Multi-Region Input–Output Database.

Investment is weakening in much of the region

**Demand-side contributions to GDP growth**

- Consumption
- Investment
- Net export
- GDP growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Type</th>
<th>NIEs</th>
<th>ASEAN-5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>PRC</td>
<td>India</td>
</tr>
<tr>
<td>2018</td>
<td>1H 2019</td>
<td>6.6</td>
<td>6.3</td>
</tr>
<tr>
<td>2018</td>
<td>H1 2019</td>
<td>5.2</td>
<td>5.1</td>
</tr>
</tbody>
</table>

**Note:** For India, data is for the first quarter (April-June) of the corresponding fiscal year.

**Sources:** Haver analytics (accessed 2 September 2019); ADB estimates.
Growth projections are revised down for developing Asia’s largest and most open subregions.

<table>
<thead>
<tr>
<th>Region</th>
<th>2019</th>
<th>2020</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia</td>
<td>5.7</td>
<td>5.5</td>
<td>5.5</td>
<td>5.4</td>
</tr>
<tr>
<td>China, People’s Rep. of</td>
<td>6.3</td>
<td>6.2</td>
<td>6.1</td>
<td>6.0</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>2.5</td>
<td>0.3</td>
<td>2.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>2.5</td>
<td>2.1</td>
<td>2.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Taipei, China</td>
<td>2.2</td>
<td>2.2</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>4.9</td>
<td>4.5</td>
<td>5.0</td>
<td>4.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.2</td>
<td>5.1</td>
<td>5.3</td>
<td>5.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.5</td>
<td>4.5</td>
<td>4.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Philippines</td>
<td>6.4</td>
<td>6.0</td>
<td>6.4</td>
<td>6.2</td>
</tr>
<tr>
<td>Singapore</td>
<td>2.6</td>
<td>0.7</td>
<td>2.6</td>
<td>1.4</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.9</td>
<td>3.0</td>
<td>3.7</td>
<td>3.2</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>6.8</td>
<td>6.8</td>
<td>6.7</td>
<td>6.7</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>5.7</td>
<td>5.4</td>
<td>5.6</td>
<td>5.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Asia</td>
<td>6.8</td>
<td>6.2</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>8.0</td>
<td>8.1</td>
</tr>
<tr>
<td>India</td>
<td>7.2</td>
<td>6.5</td>
</tr>
<tr>
<td>Pakistan</td>
<td>3.9</td>
<td>3.3</td>
</tr>
<tr>
<td>Central Asia</td>
<td>4.2</td>
<td>4.4</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>3.5</td>
<td>3.7</td>
</tr>
<tr>
<td>The Pacific</td>
<td>3.5</td>
<td>4.2</td>
</tr>
<tr>
<td>Fiji</td>
<td>3.2</td>
<td>2.9</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>3.7</td>
<td>4.8</td>
</tr>
<tr>
<td>Excluding NIEs</td>
<td>6.2</td>
<td>6.0</td>
</tr>
</tbody>
</table>

Notes: ↑ Upgraded forecast; ↓ Downgraded forecast; and no symbol = unchanged.
Regional inflation is picking up slightly, but remains benign

Headline inflation

Food inflation

Sources: Haver analytics; CEIC data company (both accessed 5 September 2019); ADB estimates; Asian Development Outlook database.
Downside risks to the outlook have increased

• Further escalation of the US-PRC trade conflict

• Deeper malaise in advanced economies (US politics, Brexit, Japan tax hike)

• Rising private debt in developing Asia
Special Focus:
The Trade Conflict and its Impact
Escalating trade tensions are a challenge...

Chronology of US-PRC trade conflict, 2018-2019

US actions:

Value of total imports from PRC (2018): $539.7 bn

- Est. value of tariff-affected imports from PRC:
  - $3.4 bn (22 Jan/23 Mar)
  - $46.6 bn (6 Jul/23 Aug)
  - $260 bn (24 Sep)
  - $260 bn (10 May)
  - $374 bn (1 Sep)
  - still to be implemented

Tariff Rates:
- 0% - 10%
- 11% - 15%
- 16% - 25%
- 26% - 30%

PRC actions:

Value of total imports from the US (2018): $155.1 bn

- Est. value of tariff-affected imports from US:
  - $3 bn (2 Apr)
  - $53 bn (6 Jul/23 Aug)
  - $113 bn (24 Sep)
  - $113 bn (1 Jun)
  - $117.8 bn (1 Sep)
  - $120.5 bn (15 Dec)

Notes: Bubbles with broken lines (---) show the value of all imports in 2018. Shaded bubbles show the portion affected by tariffs, and shade darkness indicates tariff intensity. The months refer to when the tariffs were implemented.

Source: ADB staff estimates.
…as the PRC and the US are two of the most important hubs in global value chain networks.

- The US and PRC are two of the three global manufacturing hubs for global value chains.

- A prolonged and escalated trade war between the two can 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 analysis 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**, 
• Allow for possible **trade redirection** toward suppliers not hit by tariffs
• Excludes confidence/uncertainty channels—very difficult to quantify

Scenarios

• Examine impact of **current scenario**, which includes all implemented measures as of September 2019; a **bilateral escalation scenario** where 30% tariffs are imposed on all US-PRC trade; and **“worse-case” scenario** that adds a 25% tariff on all autos/parts trade between the US and its trading partners

Data

• Uses ADB’s Multi-Regional Input-Output Tables, which cover whole economy (35 sectors) in 62 countries plus "rest of the world"; 90% of world GDP, includes 24 economies in developing Asia*

Sectoral impacts for 40 countries and regions at [https://data.adb.org/dataset/trade-conflict-impact](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 GDP takes a hit under current scenario, with losses increasing if trade conflict escalates

The blue bars represent the estimated GDP impact under the current scenario. The first yellow bar represents the incremental impact brought about by the US–PRC trade threats (30% on all bilateral exports) and the second bar is the auto sector escalation (tariffs on all auto and auto parts traded globally). The red bars represent the sum of all the impacts under the worse-case scenario.

Source: Staff calculations.
The biggest losses are to the two protagonists, the PRC and the US.

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Source: Staff calculations.
For the rest of Asia, effects through direct (tariff) and indirect (production linkage) channels are negative and small...

Impact on GDP for selected economies, Current Scenario

Direct and Indirect Effects

GDP: -$4 bn |
X: -$5 bn |
Jobs: -47 th |

GDP: -$0.4 bn |
X: -$0.9 bn |
Jobs: -69 th |

Note: BAN = Bangladesh; PRC = People’s Republic of China; EU = European Union; HKG = Hong Kong, China; IND = India; INO = Indonesia; KOR = the Republic of Korea; MAL = Malaysia; PHI = the Philippines; SIN = Singapore; THA = Thailand; USA = United States of America; VIE = Viet Nam; WLD = World.

Source: Staff calculations.
...and can potentially be offset by redirection of trade and production.

**Impact on GDP for selected economies, Current Scenario**

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

<table>
<thead>
<tr>
<th>Country</th>
<th>% GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>-0.09</td>
</tr>
<tr>
<td>PRC</td>
<td>-0.65</td>
</tr>
<tr>
<td>USA</td>
<td>-0.13</td>
</tr>
<tr>
<td>EU</td>
<td>0.06</td>
</tr>
<tr>
<td>HKG</td>
<td>0.02</td>
</tr>
<tr>
<td>IND</td>
<td>0.04</td>
</tr>
<tr>
<td>SIN</td>
<td>0.04</td>
</tr>
<tr>
<td>INO</td>
<td>0.06</td>
</tr>
<tr>
<td>BAN</td>
<td>0.11</td>
</tr>
<tr>
<td>KOR</td>
<td>0.15</td>
</tr>
<tr>
<td>PHI</td>
<td>0.15</td>
</tr>
<tr>
<td>THA</td>
<td>0.23</td>
</tr>
<tr>
<td>MAL</td>
<td>0.36</td>
</tr>
<tr>
<td>VIE</td>
<td>0.58</td>
</tr>
</tbody>
</table>

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Source: Staff calculations.
Under the worse-case scenario the patterns are similar, but the magnitudes are larger...

Impact on GDP for selected economies, Worse-case Scenario

Note: BAN = Bangladesh; PRC = People’s Republic of China; EU = European Union; HKG = Hong Kong, China; IND = India; INO = Indonesia; KOR = the Republic of Korea; MAL = Malaysia; PHI = the Philippines; SIN = Singapore; THA = Thailand; USA = United States of America; VIE = Viet Nam; WLD = World.

Source: Staff calculations.
… with gains accruing to a number of sectors.

Medium term impact of the trade conflict on GDP

Note: BAN = Bangladesh; PRC = People’s Republic of China; EU = European Union; HKG = Hong Kong, China; IND = India; INO = Indonesia; KOR = the Republic of Korea; MAL = Malaysia; PHI = the Philippines; SIN = Singapore; THA = Thailand; USA = United States of America; VIE = Viet Nam; WLD = World. Current scenario includes all tariffs implemented as of September 1, 2019. Worse-case scenario includes bilateral escalation (30% tariffs on all US-PRC merchandise trade) and trade war in autos and auto parts.
Source: ADB estimates.
How have things played out so far? In H1 2019, there was a drop in PRC imports from Asian suppliers...

PRC imports from Japan and developing Asia

% change year on year

ASEAN-5 = Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam, NIEs = Hong Kong, China; the Republic of Korea; Singapore; and Taipei, China, PRC = People’s Republic of China.
Sources: PRC Customs, Haver Analytics (accessed 9 September 2019).
...trade redirection was also already evident...

**US imports from selected DMCs, 2017-2019**

- **Agriculture, Fishing and Quarrying**
- **Electronics and Machinery**
- **Textile, Garments, Footwear, and Leather**
- **Others**
- **Import growth (% y-o-y)**

**Contributions to growth year on year, percentage points**

<table>
<thead>
<tr>
<th>Year</th>
<th>PRC</th>
<th>Developing Asia minus the PRC</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 2017</td>
<td>-15</td>
<td>-15</td>
</tr>
<tr>
<td>H2 2017</td>
<td>8.4</td>
<td>3.8</td>
</tr>
<tr>
<td>H1 2018</td>
<td>10.0</td>
<td>7.3</td>
</tr>
<tr>
<td>H2 2018</td>
<td>8.8</td>
<td>6.9</td>
</tr>
<tr>
<td>H1 2019</td>
<td>5.2</td>
<td>8.6</td>
</tr>
</tbody>
</table>

**Contributions to growth year-on-year, percentage points**

<table>
<thead>
<tr>
<th>Year</th>
<th>Guatemala</th>
<th>Bangladesh</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 2017</td>
<td>-4.6</td>
<td>-12.4</td>
</tr>
<tr>
<td>H2 2017</td>
<td>-2.9</td>
<td>5.4</td>
</tr>
<tr>
<td>H1 2018</td>
<td>9.3</td>
<td>13.4</td>
</tr>
<tr>
<td>H2 2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>H1 2019</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

...and US and PRC investors have accelerated their investments in other developing Asian economies.

Value of FDI projects approved in selected East and Southeast Asian economies, by source.

![Graph showing value of FDI projects approved in H1 2018 and H1 2019, with contributions from People's Republic of China & Hong Kong, China and United States.]

Note: Refers to FDI approvals or commitments of Malaysia, Philippines, Taipei, China and Viet Nam.

Source: Staff estimates using data from Malaysian Investment Development Authority (https://www.mida.gov.my/home/); Haver Analytics; and CEIC Data Company (all accessed 13 September 2019).
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.

Note: Chart shows response of investment to TPU shocks, based on a VAR and using the local projections method of Jorda (2005). See Abiad et al. (forthcoming).
Source: ADB staff estimates.
THANK YOU

#ADO2019

Read the full report at
www.adb.org/adou2019
The impact of the US–PRC trade conflict on Europe...

The blue bars represent the estimated GDP impact under the current scenario. The first yellow bar represents the incremental impact brought about by the US–PRC trade threats (30% on all bilateral exports) and the second bar is the auto sector escalation (tariffs on all auto and auto parts traded globally). The red bars represent the sum of all the impacts under the worse-case scenario. Source: Staff calculations.
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Source: Staff calculations.
... and on France.

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Source: Staff calculations.
For the rest of Asia, effects through direct (tariff) and indirect (production linkage) channels are negative and small...

Impact on GDP of selected economies in %, Current Scenario

-0.19 GDP: -$0.4 bn X: -$0.9 bn Jobs: -69 th
-0.68 GDP: -$0.9 bn X: -$5 bn Jobs: -47 th
-0.03 GDP: -$4 bn X: -$5 bn Jobs: -47 th
-0.04 GDP: -$5 bn X: -$121.8 bn Jobs: -5570.8 th
-0.02
-0.09
-0.04
-0.01
-0.12
-0.03
-0.10
-0.19
-0.19
-0.7
-0.19
-0.07

World PRC USA EU HKG IND SIN INO BAN KOR PHI THA MAL VIE Dev. Asia ex. PRC Dev. Asia

Note: BAN= Bangladesh; PRC = People’s Republic of China; EU = European Union; HKG = Hong Kong, China; IND = India; INO = Indonesia; KOR = the Republic of Korea; MAL = Malaysia; PHI = the Philippines; SIN = Singapore; THA = Thailand; USA = United States of America; VIE = Viet Nam; WLD = World.
Source: Staff calculations.
...and can potentially be offset by redirection of trade and production.

Impact on GDP of selected economies in %, Current Scenario

Direct and Indirect Effects

Trade Redirection Effects

Net Impact (Partial Redirection)

Note: BAN = Bangladesh; PRC = People’s Republic of China; EU = European Union; HKG = Hong Kong, China; IND = India; INO = Indonesia; KOR = the Republic of Korea; MAL = Malaysia; PHI = the Philippines; SIN = Singapore; THA = Thailand; USA = United States of America; VIE = Viet Nam; WLD = World.

Source: Staff calculations.
Under the worse-case scenario the patterns are similar, but the magnitudes are larger...

Impact on GDP of selected economies in %, Worse-case Scenario

Direct and Indirect Effects

GDP: $-22 bn  
X: -$32.9 bn  
Jobs: -256.6 th

GDP: $-20.9 bn  
X: -$30.4 bn  
Jobs: -972.0 th

GDP: $0.7 bn  
X: -$1.6 bn  
Jobs: -126.3 th

GDP: $185.8 bn  
X: -$252.5 bn  
Jobs: -11843.1 th

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Source: Staff calculations.
Under the worse-case scenario the patterns are similar, but the magnitudes are larger...

Impact on GDP of selected economies in %, Worse-case Scenario

% GDP

-2 -1 0 1 2 3

World PRC USA EU HKG IND SIN INO BAN KOR PHI THA MAL VIE

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

Note: BAN = Bangladesh; PRC = People’s Republic of China; EU = European Union; HKG = Hong Kong, China; IND = India; INO = Indonesia; KOR = the Republic of Korea; MAL = Malaysia; PHI = the Philippines; SIN = Singapore; THA = Thailand; USA = United States of America; VIE = Viet Nam; WLD = World.

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... with gains accruing to a number of sectors.

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Source: ADB estimates.