Boao Forum for Asia

Asian Economic Outlook and Integration Progress

Annual Report 2020

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ACRONYMS

RCEP	Regional Comprehensive Economic Partnership
AREAER	Annual Report of Exchange Arrangements and Exchange Restrictions
ASEAN	Association of South East Asian Nations
CIRC	China Insurance Regulatory Commission
CSRC	China Securities Regulatory Commission
EEC	Eastern Economic Corridor
FDI	Foreign Direct Investment
IMF	International Monetary Fund
MAS	Monetary Authority of Singapore
QDII	Qualified Domestic Institutional Investor
QFII	Qualified Foreign Institutional Investor
RQFII	RMB Qualified Foreign Institutional Investor
SAFE	State Administration of Foreign Exchange
WTO	World Trade Organization
AB	appellate body
SDT	special and differential treatment
GDP	Gross Domestic Product
MMT	modern monetary theory
IEA	International Energy Agency
ILO	International Labour Organization
GNI	Gross National Income
FAO	Food and Agriculture Organization
LPR	loan prime rate
UNCTAD	United Nations Conference on Trade and Development
CIIE	China International Import Expo
FTA	Free Trade Agreement
CEPA	Comprehensive Economic Partnership Agreement
IIF	Institute of International Finance
BIS	Bank for International Settlements
WBG	World Bank Group
TPP	Trans-Pacific Partnership
CPTPP	Comprehensive Progressive Trans-Pacific Partnership
WHO	World Health Organization
GVC	Global Value Chain
UNWTO	World Tourism Organization

FOREWORD

The past 2019 was a year with turbulences and difficulties. The increasing trade frictions, the escalation of geopolitical conflicts, and the obstruction of international cooperation significantly slowed down the growth of the global economy and international trade and investment. In this context, Asia's economic downturn exceeded expectations, and the divergence of growth rates and prices enlarged. Business confidences in Asian economies and investment decisions were impacted and disturbed, the cost of production and trade increased, and foreign trade and international direct investment lacked growth momentum.

Entering 2020, the world is facing unprecedented challenges since World War II. The sudden outbreak of the global pandemic of COVID-19 has brought severe damages to people's lives and production around the world, highlighting the serious defects in the global mechanism of jointly preventing and controlling major diseases. Due to interrupted supply and suppressed demand, economies are going into short-term recession one after another. Global trade and investment suddenly are plummeting, and the financial market is facing the most substantial volatility since the 2008 Great Financial Crisis. In addition, worsening food shortage, factory shutdowns, and unemployment, will bring profound influences on societies and polities all around the world.

Meanwhile, the already accumulated risks of the world economy, including corporate indebtedness, persisting and spreading negative interest rates, acute volatilities in the world commodities market, especially the dramatic drop in oil prices due to OPEC+ deal failure, continue to build up and amplify. Although China and the United States signed the Phase One of Economic and Trade Agreement on January 15, 2020, uncertainties about effectively resolving trade disputes remain. The suspension of WTO appellate bodies and the feud over critical issues such as Special and Differential Treatment create unprecedented challenges to the stability of the multilateral trading system. The disorder of international trade and acceleration of protectionism will have a fundamental impact on the distribution of global production and trade.

Into 2020, adverse effects of the outbreak are likely to increase in the short term, and the factors that lead to medium to long term growth slowdowns are likely to remain. Therefore, Asia, the global leader of economic growth, will not be able to protect itself from the inevitable economic downturn. Nevertheless, the macroeconomic fundamentals of Asian economies are generally sound, and the interdependence of trade, production, and investment within the region remains high. Asian investors have been inclined to invest within Asia as protectionism in the US and Europe rises. The pattern of interdependence among factories in Asia has not been changed fundamentally by Sino-US trade frictions, and supply chains in the region are highly resilient to shocks. In the face of the global pandemic, Asian economies have rolled out pandemic prevention and control measures, economic stimulation plans, and social relief programs to protect people's lives and safety, maintain social stability, and safeguard the development of economic activities.

Virus sees no borders. No country can save itself by shutting the door. Only through solidarity, cooperation, complementarity, and mutual assistance can the world eventually defeat the pandemic. The G20 Extraordinary Leaders' Summit on COVID-19 is encouraging. Leaders are committed to taking all measures to fight the pandemic, protect lives, and revitalize the economy with plans totaling up to USD5 trillion. This summit sent out positive signals to strengthen cooperation in fighting against the pandemic and strengthening macroeconomic policy coordination and laying the foundation for global economic stabilization.

The Boao Forum for Asia (BFA) calls for and looks forward to global joint efforts, in addressing the worldwide public health crisis through joint prevention and control and assistance to more vulnerable countries and regions, and in promoting timely global economy recovery and avoiding a long-term recession, by reducing tariffs, removing barriers, freeing trade, stabilizing the global supply chain and promoting innovation. As a major platform for dialogues among politicians, business leaders and scholars, the BFA is endeavored to push forward consensus and actions in Asia, which is a global stakeholder and has benefited from economic globalization, in the current battle against the pandemic, and in tackling future challenges—through maintaining inclusive and sustainable growth, promoting regional economic integration, and strengthening international coordination and cooperation.

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Secretary General

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Part I

Asian Economic Outlook

Executive Summary

In the context of global economic slowdown, Asia's economic growth rate fell unexpectedly in 2019, with increasing divergence among major economies in terms of growth rate. As in other regions of the world, Asia was also affected by increasing trade frictions, geopolitical tensions and uncertainty in international cooperation. The business confidence and investment decisions of Asian economies were severely impacted and disrupted, leading to increased production and trade costs, and reduction in overall economic activities. In the meantime, Asian foreign trade and international direct investment was plagued by insufficient drive for growth and rising divergence in commodity prices. Asia's job and financial markets remained basically stable and people's income even increased.

Since the beginning of 2020, the challenges faced by the Asian economy have become all the more serious. The short-term pressures stem from the COVID-19 outbreak and the persistence of unilateralism and protectionism. The new coronavirus pandemic has had a huge impact on the world economy, including Asia, putting global supply and industrial chains at the risk of breaking down. In the meantime, the unilateralism and protectionist policies upheld by the Trump administration have persisted, if not strengthened, and have severely inhibited global trade and investment and dampened investors' confidence. As a side effect, they have also facilitated international industrial relocation, thus reshaping the global value chain. The medium-term factors include mainly the diminishing effects of monetary and fiscal policies in Asian economies, especially developed economies. In the long run, the productivity slowdown indicates pessimistic expectations on profitability, which in turn inhibits investment demand.

Looking forward, the duration of the COVID-19 pandemic, the accumulation of financial risks, especially debt risks, the emergence and spread of negative interest rates in developed economies, geopolitical and social conflicts, and the trend of crude oil prices, among others, merit our particular attention. The duration of the pandemic will be a crucial factor in assessing the impact of COVID-19 on the Asian economy. From 2007 to 2019, 48 emerging economies worldwide, including Asia, became increasingly dependent on external debts, thus giving rise to cumulative debt risks. The current global economic slowdown might serve as an amplifier to these risks. Not only will negative interest rates have a major impact on the economies who have implemented them, but their escalation and spread will cause greater fluctuations in the financial and currency markets of other economies. The impact of negative interest rates on the Asian economy is complex and extensive, with both direct and indirect consequences. It's advisable to caution against the impact of geopolitical conflicts, domestic social problems, and the price trend of commodities such as crude oil.

Considering that the above-mentioned factors contributing to sluggish growth will be there in the medium and long term, that the low, if not negative,