Executive Summary of Boao Forum for Asia
Asian Economic Outlook and Integration Progress 2020

In the context of the global economic slowdown, Asia's economic growth rate fell unexpectedly in 2019, with increasing divergence among major economies. As in other regions of the world, Asia was also affected by escalating trade frictions, geopolitical tensions, and uncertainties 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 were plagued by insufficient drive for growth and rising divergence in inflation. Yet, Asia's job markets remained stable, and people's income moderately increased. The financial markets were also relatively stable.

Entering 2020, Asian has been facing mounting challenges. The short-term pressures stem from the COVID-19 outbreak and the persistence of unilateralism and protectionism. The new coronavirus pandemic has had a significant 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, which 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 industrial chain. The medium-term factors mainly include the diminishing effects of monetary and fiscal policies in Asian countries, especially developed economies. In the long run, the productivity slowdown leads to pessimistic expectations on profitability, which in turn, inhibits investment demand.

Looking forward, the duration of the pandemic, the accumulation of financial risks, especially debt risks, the emergence and spread of negative interest rates in advanced economies, geopolitical and social conflicts, and the trend of crude oil prices, among others, merit 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, have become 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. The negative interest rates would have a major impact on the implementing economies, and their escalation and spread will cause greater fluctuations in the financial and currency markets of other countries. The impacts of negative interest rates on the Asian economy are complex and extensive, with both direct and indirect consequences. It’s advisable to caution against the influences 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 persist in the medium and long term, that the low even negative interest rate policies implemented by countries will, in a sense, incentivize consumption and investment, that the negative effects of China-US trade frictions are diminishing, and that the regulatory authorities of countries have taken strict precautions against financial risks, the Asian economy is likely to continue on the low-speed track in the years to come. That being said, some Asian economies are likely to face greater downward pressure in 2020, and the Asian economy as a whole is expected to experience zero growth. But in the final analysis, it hinges on the development of the pandemic and the countermeasures of countries. In the best-case scenario, if the pandemic is mitigated in the second half of the year, Asia’s growth rate might still be positive. But if it recurs or the stimulus policies turn out to be ineffective, there is still a possibility for Asia to witness a more severe negative growth.

Since 2019, the synchronization of economic cycles between Asia and the world’s major economies has been weakened, but the integration process of Asian intraregional trade, production, investment, and other aspects has been making remarkable progress. At the end of 2019, the

ASEAN plus 5 countries, including China, Japan, the Republic of Korea, Australia, and New Zealand, reached an agreement on the RCEP text, which marked an important embodiment of the forward integration. However, in the context of the sharp slowdown of global trade and investment caused by geographical conflicts, trade frictions, technological barriers, and international sanctions, the resistance of Asian economic integration has risen. The coronavirus pandemic, which began sweeping the world in early 2020, has been devastating the global supply chain. The cross-border movement of goods, services, and people has been stagnant, and the capital chain has been blocked. These phenomena also reflect the degree of interdependence among Asian countries and between Asian and the global economy.

In terms of integration in Asia's trade in goods, intra-regional dependence among Asian economies is intensifying. Although the dependence of the United States on Asian economies declined, the dependence of other major economies on Asia has further increased. China and the United States signed the first phase agreement in Washington on January 15, 2020, indicating signs of easing trade tensions. Yet, the global trading system is still in an unstable state. The impact of the coronavirus and the plummet of oil prices have added great uncertainties to the prediction of the future integration of trade in Asia.

In terms of integration in production, in 2018, the growth rate of trade in intermediate goods declined sharply in Asia, following the global trend. The network analysis of the flow of intermediate goods shows that the flow within Asia still dominates. The trade frictions between China and the United States have not significantly affected China's important role in the global value chain in Asia. However, the extended period of the pandemic may bring adjustments to the global and regional industrial chain.

As for direct investment, the interdependence of direct investment within Asia has further increased. In 2018, the third consecutive year of declining global FDI, FDI inflows to Asian developed economies reached the highest level since 2012. The index of foreign investment dependence on the internal market in Asia has increased significantly, from 53.31% in 2017 to 63.42% in 2018, indicating the preference of Asian funds on the internal Asian market.

From the perspective of trade in services, dependence among Asian economies is relatively low, although tourism integration has intensified. Nevertheless, under the new coronavirus pandemic, how to improve the anti-shock ability of the tourism industry and establish the risk-sharing mechanism is an essential issue in the process of service industry integration.

Finally, financial integration reflects and also contributes to economic integration. From both *de jure* and *de facto* perspectives, the openness of the financial systems of Asian economies has been growing gradually over the past decade. After the global financial crisis in 2008, the capital sources of financial markets of major Asian economies became more localized. Since 2018, Asian investors have also tightened their portfolios in global investment.

In a word, the problems that occurred during the process of Asian economic integration and globalization should be addressed by reducing tariffs, removing barriers, and promoting trade, instead of going back to the path of restricting trade and investment liberalization. After the pandemic, Asian countries need to increase investment in the health system and epidemic control to enhance confidence in consumption and investment. At the same time, they also need to increase investment in human capital, upgrade the consumer market, promote digital transformation and green development, to obtain stronger growth momentum, competitiveness, and resilience against external shocks.