

ASEAN ECONOMIC CONGRESS 2010

MOVING UP: KEY STRATEGIES AND CHALLENGES TO SUCCESSFULLY EXPAND ASEAN BUSINESS

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Outline

- ⦿ Economic Outlook for ASEAN in 2011
- ⦿ Changing ASEAN trade environment
- ⦿ What are the best growth opportunities among ASEAN members?

Economic Outlook for ASEAN in 2011

- ⦿ Global economic recovery weak with considerable downside risks
- ⦿ After contracting -0.9% in 2009, global economy likely to decline from 4.6% in 2010 to 4.3% in 2011
- ⦿ Pockets of growth in Asia and Latin America
- ⦿ ASEAN displaying moderate growth (5-6%) while India and China powers ahead (8-10%)

Global growth likely to be lower

TABLE 1: GLOBAL REAL GDP GROWTH RATES Y-O-Y (%)

	2009	2010 (f)	2011 (f)
US	-2.4	3.3	2.9
Eurozone	-4.1	1.0	1.3
Japan	-5.2	2.4	1.8
China	9.1	10.5	9.6
India	5.7	9.4	8.4
ASEAN-5	1.7	6.4	5.5
World Economy	-0.9	4.6	4.3

Source: IMF Data and Statistics (July 2010)

Strong rebound in ASEAN countries not expected to continue in 2011

TABLE 1: GLOBAL REAL GDP GROWTH RATES Y-O-Y (%)

	2009	2010 (f)	2011 (f)
Singapore	-1.3	15.0	4.0-6.0
Malaysia	-1.7	7.0	5.0-6.0
Indonesia	4.5	6.0	6.2
Thailand	-2.2	7.5	4.0
Philippines	1.1	7.0	4.5
ASEAN-5	0.1	6.7	5.2

Source: IMF Data and Statistics (July 2010)

CLMV countries to do better than ASEAN-5 in 2011

Country	2009	2010	2011
Brunei Darussalam	-0.5	0.5	1.0
Cambodia	-2.0	4.8	6.8
Indonesia	4.5	6.0	6.2
Lao PDR	7.6	7.7	7.5
Malaysia	-1.7	7.0	5.0-6.0
Myanmar	4.9	5.3	5.0
Philippines	1.1	7.0	4.5
Singapore	-1.3	15.0	4.5
Thailand	-2.2	7.5	4.0
Vietnam	5.3	6.5	6.8
ASEAN	1.6	6.7	5.2
ASEAN 5	0.1	8.5	4.9
CLMV	4.0	6.1	6.5

IMF (Oct 2010), official forecast by Malaysian government

Major Economic Concerns in ASEAN

- ⦿ Sustaining growth
- ⦿ Destabilizing currency appreciation as interventions in currency markets may not be successful – case in Brazil and Japan
- ⦿ Fears that more QE by US could lead to asset bubbles in real estate as ASEAN stock market equity and bond markets are too small to cope with large inflows
- ⦿ More QE also means further weakening of US currency
- ⦿ Stronger ASEAN currency combined with successful efforts by China to contain appreciation of its currency can affect smaller countries like ASEAN
- ⦿ Falling trade as a result of 2 factors: 1) weaker external demand 2) stronger currency
- ⦿ Falling FDI

Appreciation in currencies

	% appreciation/depreciation against US\$ since Jan 2010
Singapore	9.1%
Malaysia	9.7%
Indonesia	3.8%
Thailand	12.0%
Philippines	-8.7%

New capital control measures to curb currencies speculation

Country	Date	Description of Capital Control
S. Korea	Nov 2010	Re-imposes withholding tax of 14% on foreign investors' earnings from government bonds (tax was dropped early 2009)
Thailand	Oct 2010	Imposes 15% withholding tax on interest and capital gains for foreigners holding Thai bonds
S. Korea	June 2010	Restrictions on currency derivatives trades, enhanced restrictions on the use of bank loans in foreign currency, further tightening of the existing regulations on foreign currency liquidity ratio of domestic banks
Indonesia	June 2010	One-month holding period on Sertifikat Bank Indonesia and increase the maturity range of its debt instruments
China & Hong Kong	May 2010	Restricts the purchase of Chinese financial assets

Exports of ASEAN-5 nations and advanced nations post-crisis

Slowdown in export growth more noticeable for Malaysia, Indonesia and Philippines and Japan in 2Q 2010

PERCENTAGE CHANGE IN EXPORTS (y-o-y) (%)				
	2009 Q3	2009 Q4	2010 Q1	2010 Q2
US	-21.5	-1.0	20.3	24.4
Euro-zone	-23.3	4.0	18.0	n.a.
Japan	-24.5	-1.0	48.4	36.9
China	-20.6	0.1	28.7	16.3
Singapore	-20.0	28.0	27.0	28.0
Malaysia	-26.4	10.1	40.8	33.2
Indonesia	-17.9	20.6	44.7	34.4
Thailand	-17.6	12.0	32.1	41.8
Philippines	-22.0	4.9	43.5	33.3

Source: World Trade Organization, World Bank (October 2010)East Asia and Pacific Economic Update - Robust Recovery, Rising Risks

FDI of ASEAN before and during crisis

INFLOW OF FDI OF SELECTED EAST ASIAN NATIONS)

Region/Economy	2007	2008	2009	Growth rate (%) in 2008/07	Growth rate (%) in 2009/08
Developed economies	1,444.1	1,018.3	565.9	-29.5	-44.4
Developing economies	564.9	630.0	478.3	11.5	-24.1
China	83.5	108.3	95	29.7	-12.3
Cambodia	0.9	0.8	0.5	-6.0	-34.6
Indonesia	6.9	9.3	4.9	34.5	-47.7
Laos	0.3	0.2	0.2	-29.6	-31.1
Malaysia	8.5	7.3	1.4	-14.3	-81.1
Thailand	11.4	8.5	5.9	-24.8	-30.4
Vietnam	6.7	8.1	4.5	19.5	-44.1
ASEAN	74.0	47.3	36.8	-36.1	-22.1

Changing ASEAN Trade Environment

Percentage share of ASEAN Trade with Selected Partners, 2002 and 2009

	Intra-Group Trade		Trade with US		Trade with EU		Intra-Group ,US & EU Trade	
Year	2002	2009*	2002	2009*	2002	2009*	2002	2009*
ASEAN	23.8	26.0	15.6	9.6	13.0	10.9	52.2	46.4
ASEAN-China	30.2	36.8	17.3	12.4	15.4	14.2	62.8	63.5
ASEAN-Japan	38.2	36.2	19.6	11.3	13.7	11.2	71.5	58.7
ASEAN-Korea	28.3	31.6	16.2	9.7	13.0	10.8	57.5	52.1
ASEAN+3	49.1	51.7	19.5	12.4	14.8	13.3	83.3	77.4

Source: IMF's Direction of Trade Statistics

- Intra-East Asian total trade (i.e. export + imports) has grown. By 2009, 52% of trade circulates in East Asian.
- East Asian trade with the US & EU on the whole has declined. Biggest fall in trade with the US
- Intra-ASEAN trade is the lowest in East Asia but is rising with +1 countries, with exception of Japan

Changing ASEAN Trade Environment: ASEAN Economic Community

- ASEAN wants to create a single market and production base. It comprises of free flows of goods, services, investment, capital; and freer flow of skilled labor
- Tariffs for products in CEPT Inclusion Lists of ASEAN-6 have been eliminated since Jan 1, 2010. This represents 99% of total tariff lines and current average tariff stands at 0.9%.
- Current trade facilitation effort includes i) standardization of rules of origin (ROO) among ASEAN goods and ii) establishment of an ASEAN Single Window. Related issues like customs, trade procedures, standards and conformance, sanitary and phytosanitary measures are to be in place before 2015.
- ASEAN also seeks engagement with other countries and have signed Free Trade Agreement with China, Japan, Korea, India, Australia and New Zealand. Future trade arrangement with EU.

Impact on ASEAN Economies and Businesses

- Emerging markets like China, Indonesia and even India will continue to be important for ASEAN trade (either as intermediate or final goods). This will be supported by facilitation efforts in investment and trade are underway under ASEAN framework (i.e. ASEAN FTAs with China and India).
- While trade interaction with EU and USA has been declining, much of foreign direct investment inflows in ASEAN originates from EU and USA (ASEAN Sec, 2007-2009). ASEAN will continue to depend on EU and USA for technological know-how and capital.

Impact on Manufacturing: Supply

- Trade in ASEAN and East Asia continue to be shaped by parts and components trade. At the same time there's growing trend for ASEAN and East Asia as consumption site for final products produced from its intricate production networks.
- Dense production networks established by stable industries helped East Asia and ASEAN recover rapidly from the Global Financial Crisis.
- However ASEAN manufacturing growth has always been driven by low wages, diverse production conditions, proximity to large Asian markets and trade policy. High value manufacturing is harder if ASEAN did not have the required human capital and technology, coupled with strong intellectual property rights protection.
- Service link providers (transportation, telecommunication, coordination) continues to play integral role to the growth ASEAN production networks. However liberalization process for these sectors have been slow, despite huge growth potential.

Impact on Manufacturing: Demand

- ASEAN economic growth has been translated into growing middle class with changing consumption pattern. Products segmentation will remain important given differences in culture and standard of living in the region to fuel growth in consumption goods.
- Policies to rebalance growth by increasing share of domestic consumption will also fuel demand for final/consumption goods in ASEAN.
- ASEAN Connectivity plan along with individual countries infrastructure projects will translate into more demand in the manufacture of construction materials. With the completion of infrastructure projects, demand for high capital goods (i.e. heavy vehicles parts) will continue.
- The drive by more advanced ASEAN members to have green and sustainable growth presents an opportunity for growth in green-related sectors as well.

Growth opportunities on health tourism

- ◉ Given the rising costs for health and aging population in neighboring countries, health tourism is a new area of growth for ASEAN
- ◉ A single country in ASEAN lacks sufficient pool of doctors, nurses to cater to potential demand for health tourism. As costs of setting up hospitals are high and margins relatively low for small hospitals, ASEAN can collaborate to form large regional health centres
- ◉ The regional health centres should focus on specialisation in certain diseases. To assist the private sector, ASEAN Ministries in Human Resource can set up labor exchange information and access to biodata on experts in the region, starting with doctors and scientists for pandemic diseases such as SARS.

Growth opportunities on education and research

- ◉ Individually, ASEAN countries lack sufficient pool of engineers, scientists and educationists to conduct R&D
- ◉ Cooperate to have a regional education centre for ASEAN
- ◉ To reduce cost of trials and failures and improve on existing successes, ASEAN should collaborate to share learning experiences, both success and failures among government as well as the private sector
- ◉ Information can be shared freely within ASEAN, through e-library for ASEAN scholars, academicians and researchers

Thank you