

ASEAN ECONOMIC BULLETIN

August 2015

HIGHLIGHTS

- The slowdown in the Chinese economy, ASEAN's largest trading partner, has dampened economic growth in the region. The devaluation of the renminbi in August has added to concerns about China's slowdown, as well as put further downward pressure on already weakening SE Asian currencies.
- Economic growth in most major SE Asian economies has slowed as the result of global and domestic headwinds. The notable exception is Vietnam, where growth is accelerating due to the strong, export-orientated, manufacturing sector and healthy domestic consumption. Growth in the Philippines also strengthened in the second quarter of 2015 but remains below the level experienced in recent years.
- The fatal bomb blast in Bangkok on 17 August could, in addition to the horrific human toll, further weaken the struggling Thai economy. The important tourism sector had been one of the brighter spots in an otherwise downbeat outlook.
- Negotiations on the EU-Vietnam Free Trade Agreement were provisionally concluded in August, potentially leading to an estimated £20 million annual boost for UK exports to Vietnam, although implementation will take a while.
- ASEAN Economic Ministers met in Kuala Lumpur on 22-25 August. They announced that 91.5% of the ASEAN Economic Community (AEC) Blueprint had been completed, ahead of the end-2015 deadline. They also held discussions with Dialogue Partners and the third ministerial meeting of the Regional Comprehensive Economic Partnership (RCEP).
- The Indonesian government has increased import tariffs for over 1,000 products, with the new rates for liquors (150%) and automobiles (50%) among the highest.
- Prime Minister David Cameron visited Indonesia, Singapore, Vietnam and Malaysia in late July to promote stronger trade links with this dynamic region and encourage further investment in the UK, especially the Northern Powerhouse. He became the first British Prime Minister to visit the ASEAN Secretariat and announced the UK would provide technical support to the AEC.



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Impact of China Slowdown and Renminbi Devaluation

1. The slowdown in China is creating strong headwinds in the region, adding pressure to SE Asia's struggling exports and weakening growth outlook. China is ASEAN's largest trading partner. According to Chinese statistics, total China-ASEAN trade was \$480 billion in 2014 and ASEAN statistics put it at \$367 billion (15% of ASEAN's total trade). The goal is to reach \$1 trillion by 2020. Aside from Singapore, major ASEAN economies import more from China than they export there, leading to trade deficits (see Figure 1). China has been the largest export market for the region as a whole since 2011 but its relative importance varies by country – among the major ASEAN economies, China only ranks as the biggest export market for Singapore and Thailand. Exports from Indonesia, Thailand and Malaysia to China fell in 2014 and the impact has been felt more strongly, and widely, in ASEAN in the first half of 2015.

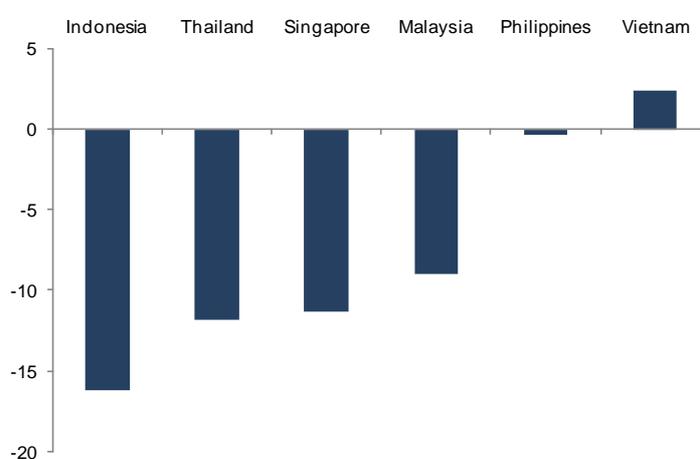
Figure 1: Goods Exports from Major ASEAN Economies to China

	Total Trade Value (\$bn)	Trade Balance (\$bn)	China's Ranking as Export Market	Share of Exports to China (%)	Change in Exports to China in 2014 (%)
Indonesia	48.2	-13.0	2	10	-22
Thailand	63.5	-13.5	1	11	-8
Malaysia	50.1	-5.7	2	12	-4
Singapore	84.9	6.2	1	15	8
Philippines	18.3	-1.4	3	11	20
Vietnam	59.0	-29.0	4	10	13

Sources: UNCTAD, National Statistics

2. Stock indices in SE Asia have been adversely affected by the sharp falls and volatility in Chinese markets this year, including "Black Monday" on 24 August. Stock markets in Indonesia, Thailand and Singapore have fallen by 10% or more so far this year (see Figure 2). The Philippines has been less affected and Vietnam has bucked the trend. The devaluation of the renminbi (RMB) on 11-12 August has added to financial market volatility. The devaluation, which has been portrayed as a move by Beijing to boost Chinese exports and economic growth, has led to some concerns over reduced competitiveness for SE Asian exports, especially Vietnam. But the overall impact of the RMB move on SE Asian exports may be relatively limited. ASEAN countries play an important role in East Asian supply chains and would benefit if the devaluation helps lift Chinese exports and economic growth.

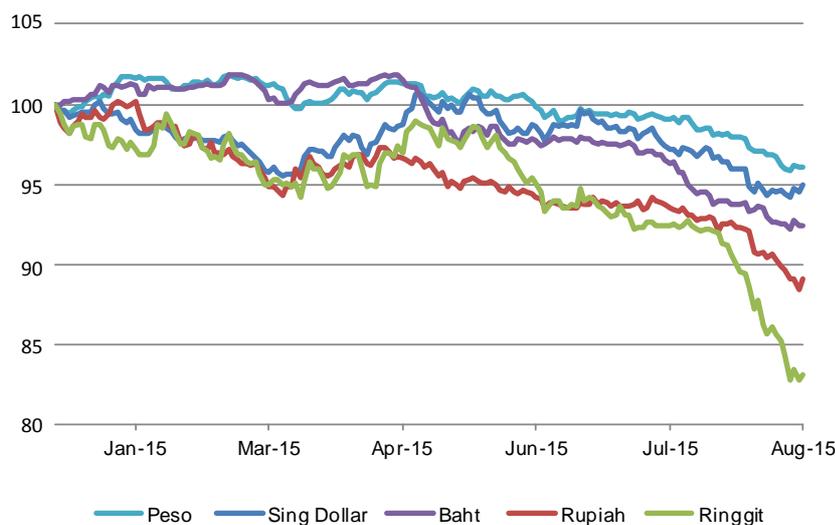
Figure 2: Change (%) in Major ASEAN Stock Market Indices Since 1 Jan 2015



Source: Bloomberg as of 28 August

3. The RMB devaluation has, though, intensified the downward pressure that major SE Asian currencies have been experiencing this year as the growth outlook has slowed. As of late August, the Indonesian rupiah had fallen by more than 10% against the US dollar in 2015 and it weakened by a couple of per cent following the RMB devaluation (see Figure 3). The Malaysian ringgit has fallen by nearly 20% against the US dollar in 2015 (as of late August) due to the impact of falling oil and commodity prices. Both the rupiah and ringgit are around their lowest levels against the dollar since the Asian financial crisis in the late 1990s. The Thai baht is around a 6-year low against the dollar. The Singapore dollar fell to a 5-year low against the US dollar following the RMB devaluation, continuing its weakening trend on the back of disappointing economic data in the city-state and the strengthening greenback. The Philippine peso has also weakened.

Figure 3: ASEAN-5 Exchange Rate Index Against US Dollar in 2015
(1 Jan 2015 = 100; down = depreciation against US dollar)

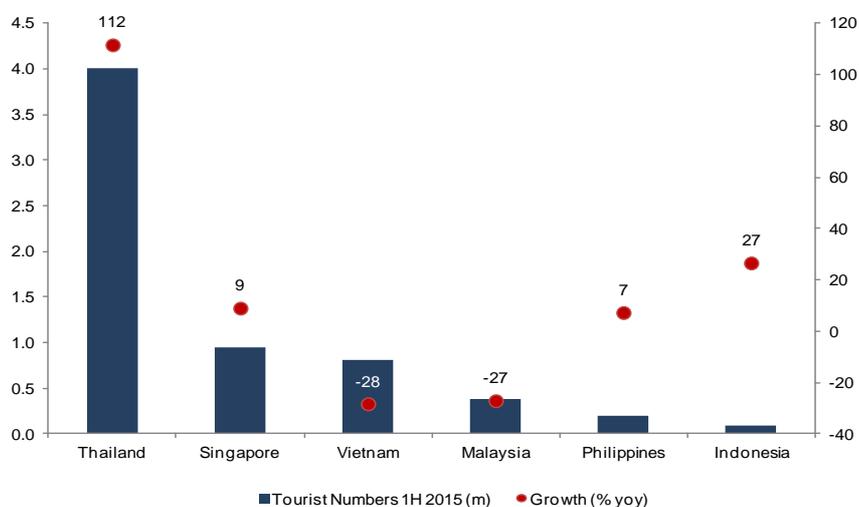


Source: *exchangerate.com* as of 28 August

Following the RMB devaluation, the Vietnamese central bank widened the daily trading band for the dong, which is pegged to the US dollar, from +/-1% to +/-2% on 12 August, and then to +/-3% on 19 August. The last time they made such a reform was 2011. The central bank has also devalued the dong by 1% three times this year, most recently on 19 August.

4. On the positive side, Chinese foreign direct investment (FDI) in most major SE Asian economies continued to rise in 2014, although the first half of this year has been more mixed. According to ASEAN statistics, China provided 6.5% of ASEAN's record \$136 billion of inward FDI in 2014, 4th behind the EU (21.5%), Japan (9.8%) and the US (9.6%). Rapidly rising numbers of Chinese tourists to SE Asia, especially Thailand, have also helped offset some of the impact of the slowdown on the region's goods exports (see Figure 4).

Figure 4: Tourist Arrivals from Mainland China in First Half of 2015



Source: *National Statistics*

■ LHS - Tourist Numbers 1H 2015 (m) ● RHS - Growth (% yoy)

Other Economic Developments

5. The gradual slowdown in the region's largest economy, Indonesia, continues. GDP rose by 4.7% in the second quarter of this year (on a year earlier). The IMF and World Bank have reduced their 2015 growth forecasts to 4.7%, though the ADB predicts 5%. In addition to the impact of the China and global slowdown, and lower oil and commodity prices, growth has been hampered by delays in rolling out the promised increased infrastructure spending as well as weak disbursement of public funds. The latter is the result of the restructuring of government departments as well as the negative and unintended consequence of the corruption clampdown – a phenomenon seen in several countries in the region. There is some optimism that growth will accelerate in the second half of 2015, though, on the back of improved disbursement of public funds and higher infrastructure spending. But consumer spending, the backbone of the economy, could be hampered by rising inflation, increased import tariffs on a number of goods and import quotas for major food products.
6. President Joko Widodo reshuffled his cabinet on 12 August to restore investor confidence and get the economy back on track to achieve his target of 7% growth by 2019. The main change of economic portfolios was moving Sofyan Djalil from the position of Coordinating of Minister Affairs to become the head of BAPPENAS, the Ministry of National Development Planning. Darmin Nasution, a former central banker, was appointed the new Coordinating Minister for Economic Affairs. Private equity executive Thomas Lembong was appointed as the new Trade Minister. Rizal Ramli, a former finance minister, was appointed the new Coordinating Minister for Maritime Affairs. The media and analysts have mixed views on whether this will lead to faster progress on economic reform.
7. Growth in the region's second largest economy, Thailand, decelerated to 2.8% in the second quarter of this year (on a year earlier), down from a rate of 3% in the first quarter and well below potential. The National Economic and Social Development Board has revised downwards the official growth forecast for 2015 to 2.7-3.2%, from 3-4% previously. Exports fell by 4% in the second quarter (on a year earlier). Household consumption is decelerating, growing by just 1.5% in the second quarter (on a year earlier) and hampered by high household debt (equivalent to 86% of GDP) and the impact of the prolonged drought on farm output and income. Government spending and investment is finally accelerating though. In order to help revive the economy, Prime Minister Prayut Chan-o-cha reshuffled his cabinet on 20 August, changing 19 roles and bringing in 10 new ministers.
8. Tourism accounts for 9% of Thailand's GDP and has been one of the few bright spots in the economy recently. There are therefore concerns that the explosion in Bangkok on 17 August, which killed 20 and injured 125, could further hurt the economy in addition to the horrific human toll – although many analysts believe the impact could be short-term. The tourism recovery has been led by East Asian visitors, especially Chinese, and these accounted for the majority of the foreign fatalities.

9. Malaysia's economy has also cooled slightly, growing by 4.9% in the second quarter of this year (on a year earlier), down from a rate of 5.6% in the first quarter. Exports have been a bigger drag on growth than domestic demand but almost all sectors of the economy have weakened. The fall in international oil and commodity prices, and China and global slowdown have created strong headwinds. But concerns over the debts of 1MDB, a sovereign wealth fund with opaque financing arrangements, and the political fallout from that have also dented investor confidence. In the first 8 months of 2015, foreign investors pulled around \$3 billion out of the stock market, compared with \$1.6 billion for the whole of last year. The ringgit has fallen sharply as a result of all these factors.
10. Singapore's economy grew by 1.8% in the second quarter (on a year earlier) and in 2015 is likely to experience its slowest growth in 6 years. The government has narrowed its growth forecast range for 2015 from 2-4% to 2-2.5%. Most analysts have downgraded their growth forecasts although the IMF still predicts 2.9% this year. The slowdown in the export-dependent economy is partly the result of global developments but also the impact of tight controls on credit and foreign labour. This has led to Singapore's expected trend growth rate up to 2020 being reduced to a "new normal" of 2-4% per annum – highlighting the challenges facing the city-state, which celebrated its 50th anniversary of independence on 9 August and will go to the polls on 11 September.
11. The Philippine economy grew by 5.6% in the second quarter of this year (on a year earlier), higher than the first quarter's 5% but still below the government's target of 7-8% for 2015, which most analysts now see as unattainable, and the growth rates enjoyed in recent years. Public spending has gained a little steam after a very weak first quarter. Services continue to perform well, growing by 6.2% in the second quarter (on a year earlier), but the manufacturing sector has been weighed down by weak goods exports, which fell 3% in the second quarter (on a year earlier). Investment grew by an impressive 17.4% in the second quarter (on a year earlier). Attention is now increasingly turning to the presidential election in 2016, which could reduce the space and ability to push forward economic reforms.
12. Vietnam is bucking the regional trend, with economic growth accelerating to 6.4% in the second quarter (on a year earlier). The growth outlook for 2015 is robust, with manufacturing still the best performing sector, driving 9.3% growth in goods exports in the first half of the year (on a year earlier), despite global developments. Imports also surged, driven by machinery as FDI-related production facilities increase their capacity, pointing to future expansion in manufacturing. Domestic consumption remains on a path to recovery. There are some concerns, though, over the widening trade deficit (\$3.7 billion) and lower FDI inflows in the first 6 months of 2015.

Trade Policy Developments

13. Negotiations on the EU-Vietnam Free Trade Agreement provisionally concluded in August, leading to an estimated 3% boost in annual EU exports to Vietnam, including a £20 million lift in UK exports, and a 4% rise in Vietnam's exports to the EU – although implementation will take a while. Both sides will remove import tariffs for 99% of products over a period of up to 7 years for the EU and 10 years for Vietnam. Both sides also made commitments on government procurement, regulatory reform, dismantling of non-tariff barriers and intellectual property (IP). Formal conclusion of the negotiations is expected to happen before the end of this year but implementation will take time.
14. The Indonesian government announced in July that it was increasing import tariffs for over 1,000 products, to support domestic producers. Imports of whisky and other liquors are now subject to a 150% duty (used to be 125,000 rupiah, £6, per litre), automobiles 50% (up from 10-40% previously), tea 20% (5% previously) and meat 30% (5% before). The Indonesian authorities stated that the increased tariffs still fall within the maximum ("bound") level they are allowed to impose under WTO commitments. In another step that could restrict trade, the authorities have announced that all 4G smartphones sold in Indonesia will need to have 30% local content by 2017.
15. ASEAN Economic Ministers (AEM) met in Malaysia (2015 ASEAN Chair) on 22-25 August, their final scheduled meeting before the leaders' summit in November, when the ASEAN Economic Community (AEC, the region's "single market") will be launched. At the main AEM meeting on 22 August, ministers stated that 91.5% of the AEC Blueprint, or 463 out of 506 measures, had been completed. There was recognition that some measures will not be completed by the end-2015 deadline and ministers committed to implementing these by end-2016.
16. The AEM also held consultations with Dialogue Partners: China, Japan, South Korea (plus a meeting with these "+3" together), US, Canada, India, Russia, Australia and New Zealand (together). There was also a Regional Comprehensive Economic Partnership (RCEP) ministerial on 24 August, the 'mega-trade pact' involving all of ASEAN and its 6 FTA partners (China, Japan, South Korea, India, Australia and New Zealand). Malaysia's trade minister told the media that the 16 countries had agreed to eliminate tariffs on 65% of products when the deal comes into force, rising to 80% within 10 years, with negotiations on the detail starting soon. The RCEP statement refers to "substantially concluding" negotiations by the end-2015 deadline with "some technical issues" to be resolved next year.
17. Trade ministers from the 12 participating countries in the US-led Trans-Pacific Partnership (TPP) met in Hawaii at the end of July, following a week-long gathering of chief negotiators. They were not, as some had expected, able to conclude negotiations on the 'mega-trade pact', with unresolved issues including automotives, dairy, sugar and pharmaceutical patents. TPP ministers claimed that significant progress was made on other areas.

Business Environment and Regulatory Developments

18. The Vietnamese authorities announced they would scrap the 49% foreign ownership limit for listed companies from September, except where separate regulations on ownership apply, for example the 30% cap for banking.
19. Thailand's new Licensing Facilitation Act took effect on 21 July. The Act creates a 'one-stop-shop' service to improve the speed and transparency of approvals for business licences.
20. President Aquino signed the Philippines' first competition law on 21 July, ahead of his final State of the Nation address. The law is intended to help level the playing field by establishing the Philippine Competition Commission and penalising anti-competitive behaviour, although punitive measures were reduced during the law's passage through Congress. On 21 July, President Aquino also signed the amended Cabotage Law, which allows foreign ships to access ports outside Manila, reducing port congestion in the capital city and helping to boost international trade in other parts of the country.
21. Singapore hosted its annual IP Week on 24-28 August. The UK Intellectual Property Office and British High Commission Singapore organised and/or participated in several events: joint UK-US workshop on IP, seminar on Patent Prosecution Highways in the UK, session on UK IP mediation, and seminar on IP valuation and financing.

Prime Minister's Visit to SE Asia

22. Prime Minister David Cameron visited Indonesia, Singapore, Vietnam and Malaysia in late July, accompanied by senior ministers and a business delegation. His focus was on promoting stronger trade links with this dynamic region, announcing new [deals worth £750 million](#), and encouraging further investment in the UK. The Prime Minister, accompanied by Business Secretary Sajid Javid, led the first Northern Powerhouse trade mission to [Singapore and Malaysia](#). He became the first British Prime Minister to visit the ASEAN Secretariat in Jakarta. The Prime Minister announced that Richard Graham MP had been appointed as the UK's Trade Envoy to the AEC and the British government would provide increased technical support for the region's economic integration agenda.
23. In Jakarta, the Prime Minister also announced that the British government would make available up to £1 billion to finance infrastructure deals in Indonesia through its export guarantee scheme, and cooperate on [space partnerships with SE Asia](#). In Singapore, the Prime Minister delivered a speech on [anti-corruption](#) and announced that the two countries would cooperate on [cyber security and IP](#), among other issues. In [Vietnam](#), the Prime Minister announced [new measures to end modern slavery](#) and plans to make the [UK a global financial technology hub](#). In Malaysia, the Prime Minister launched the 'Battersea and Beyond' initiative to encourage further investment in the UK and the 'GREAT Year of Education' campaign to promote UK education. Further details on the visit are available [here](#).



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