

ASEAN ECONOMIC BULLETIN

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HIGHLIGHTS

- Although 2016 started with heightened global uncertainty, it could be a better year for ASEAN's economy, equivalent to the world's 7th largest. The IMF predict the region will grow by 5% in 2016, up from 4.6% last year.
- Burma is predicted to be the fastest growing economy in Asia in 2016, expanding by over 8%. The region's other frontier markets, Cambodia and Laos, will not be far behind.
- Vietnam is likely to experience the fastest growth among ASEAN's major emerging markets this year. The Philippines should enjoy growth of around 6%, although May's presidential election inevitably increases political uncertainty. Indonesia, the region's largest economy, could return to above 5% growth after the government introduced a series of measures to stimulate the economy.
- Low global prices will remain a drag on growth for net oil exporters Malaysia and Brunei in 2016, although the former benefits from a more diversified economy. Thailand is expected to have a better year in 2016 but growth will likely remain below potential. Singapore will have another challenging year due to global developments and domestic restructuring.
- ASEAN's working groups will be completing post-2015 integration plans this year as part of the bloc's ASEAN Economic Community 2025 agenda.
- The recently concluded Trans-Pacific Partnership, if approved by the US Congress, should boost members Vietnam, Singapore, Malaysia and Brunei. Leaders aim to conclude the Regional Comprehensive Economic Partnership (which includes all of ASEAN plus China, Japan, South Korea, India, Australia and New Zealand) in 2016.
- Both the Philippines and Indonesia have signalled a willingness to begin free trade agreement (FTA) negotiations with the EU soon. But FTA negotiations with Thailand and Malaysia are likely to remain on hold for the immediate future.



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Economic Outlook for 2016

1. Although 2016 started with heightened global uncertainty, it could be a better year for ASEAN's economy, equivalent to the world's 7th largest. The IMF predict the region will grow by 5% in 2016, up from 4.6% last year (although this forecast was made last October).

Which countries will be the best performers in 2016?

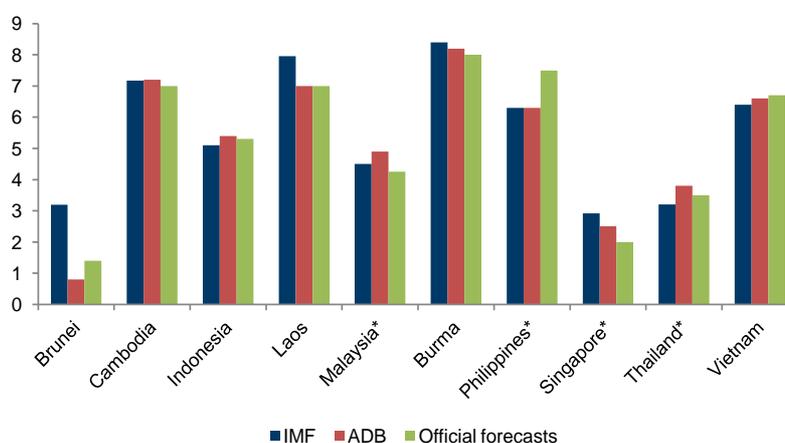
2. Burma is predicted to be the fastest growing economy in Asia in 2016, expanding by over 8%. Cambodia and Laos, which are also starting from a low base, will not be far behind. Vietnam is likely to experience the fastest growth among ASEAN's major emerging markets this year. The authorities hope to at least maintain last year's 6.7% growth rate. Vietnam is benefiting from a booming, foreign direct investment (FDI)-fuelled manufacturing sector, which will be further boosted by recently agreed trade deals.

The Philippines should enjoy growth of around 6% in 2016.

3. Indonesia, the region's largest economy, could return to above 5% growth in 2016 due to the government's stimulus measures. These include steps to reduce the time it takes to register a new business. Low global prices will remain a drag on growth for net oil exporters

Malaysia and Brunei, although the former benefits from a more diversified economy. Thailand's economy is expected to grow by 3-3.5% this year, better than 2015 but still below potential. Singapore will have another challenging year due to global developments and domestic restructuring.

Figure 1: GDP Growth Forecasts for ASEAN Economies in 2016 (%)



Sources: IMF, Asian Development Bank (ADB), national statistics (* median of range)

Key challenges and opportunities

4. A sharper slowdown in China remains the biggest risk. Exports to China – ASEAN's largest trading partner since 2009 and the destination for 12% of its exports – would suffer even more than they have already. Local stock markets have been hit, as elsewhere, by financial volatility in China. Further weakening of the renminbi would add to the downward pressure on some SE Asian currencies – although on the plus side this could help countries' exports and has encouraged further liberalisation of Vietnam's currency regime. But Chinese tourist numbers should continue to increase, especially in Thailand. China was the 4th largest source of FDI into ASEAN in 2014 (the EU was the largest). FDI from mainland China is expected to continue rising despite the country's economic slowdown.

5. US monetary tightening could exacerbate capital outflows from the region, although markets have largely “priced in” the change. Indonesia and Malaysia have been the most vulnerable as around a third of their government bonds are held by foreign investors – one of the reasons why the rupiah and ringgit weakened significantly in 2015. Central banks may feel more constrained in their monetary policy despite low (and in some cases negative) inflation, although it didn’t prevent Bank Indonesia from cutting interest rates in January.
6. Government spending may be somewhat constrained in Indonesia given the difficulties in raising tax revenue and requirement to stay within the constitutional budget deficit limit of 3% of GDP – reducing the scope for fiscal stimulus. Malaysia’s fiscal position has been improving due to the introduction last year of the Goods and Sales Tax (GST) and Tobacco Tax, as well as the reduction of fuel subsidies. But lower oil prices may reduce government revenue this year.
7. Debt could remain a key theme in 2016. High household debt in Thailand (equivalent to over 80% of GDP) constrains consumer spending. Rapid credit growth and a frothy property market put the focus back on the level of non-performing loans in Vietnam’s state-owned banking sector and the pace of progress in resolving the issue. Rapid credit growth is also a concern in Burma. Concerns remain, though have perhaps lessened, over Malaysian sovereign wealth fund 1MDB’s debt – a reminder of the government’s contingent liabilities, which the authorities are actively addressing. Indonesia and the Philippines stand out as having relatively low – government, corporate and household – debt levels.
8. Government spending ahead of May’s presidential election will be one of the factors keeping the Philippine economy buoyant in the first half of 2016, although it will inevitably lead to increased uncertainty. Political uncertainty will continue to weigh on investor confidence in Thailand but is perhaps diminishing in Malaysia. The Vietnam Communist Party’s five-yearly National Congress, which concluded on 28 January, saw a smooth leadership transition – highlighting the country’s relative political stability. Burma remains on track for its first peaceful, democratic handover of power in April.
9. The recently launched Asian Infrastructure Investment Bank, increasing funds from China and Japan, and ambitious national plans should all help improve the region’s infrastructure. The Thai government hopes recent reforms to the public-private partnership (PPP) framework, supported by UK capacity building, will lead to new projects rolling out in 2016-17. There is optimism that the long-awaited rail link over the Thai-Cambodia border will be completed this year, which would boost connectivity in the Greater Mekong Subregion and mark a significant step towards the realisation of ASEAN’s proposed Singapore-Kunming (China) Rail Link. President Joko Widodo has increased funding for Indonesia’s state-owned enterprises to implement infrastructure projects, believing this will enable a quicker roll-out.

Trade Policy Outlook

10. The launch of the ASEAN Economic Community (AEC) at the end of 2015 has created a buzz. At the ASEAN Summit in Kuala Lumpur in November 2015, leaders welcomed the “near completion” of the AEC 2015 Blueprint. They committed to addressing outstanding issues in 2016, which include non-tariff barriers, trade facilitation, services liberalisation and (skilled) labour mobility. ASEAN’s working groups will be completing post-2015 integration plans this year as part of the bloc’s AEC 2025 agenda, and a new version of the ASEAN Master Plan on Connectivity is also expected to be launched. The UK Government will continue supporting ASEAN in these efforts through the FCO’s Prosperity Fund, especially in the areas of capital markets, intellectual property and infrastructure/PPP.
11. The recently concluded Trans-Pacific Partnership (TPP), if approved by the US Congress, should boost members Vietnam, Singapore, Malaysia and Brunei, even though implementation will take some time. Vietnam and Malaysia are expected to be the biggest economic beneficiaries among the TPP’s 12 members. Leaders aim to conclude the Regional Comprehensive Economic Partnership (includes all of ASEAN plus China, Japan, South Korea, India, Australia and New Zealand) in 2016, which could eventually provide a further boost to growth in the region.
12. The EU-Vietnam free trade agreement (FTA) was signed in December but is not expected to come into force before 2017 as it must first go through legal scrubbing and then ratification. The FTA will lead to 99% of tariffs being eliminated by the EU on Vietnamese imports within 7 years (from implementation), and within 10 years for Vietnamese tariffs on EU imports. The UK Government is helping Vietnam prepare for implementation through a Prosperity Fund project with the Vietnam Chamber of Commerce and Industry. Both the Philippines and Indonesia have signalled a willingness to begin FTA negotiations with the EU soon. But negotiations with Thailand and Malaysia are likely to remain on hold for the immediate future. The European Court of Justice is expected to deliver its opinion this year on whether the concluded EU-Singapore FTA needs to be ratified by national parliaments in EU member states in addition to the European Parliament, paving the way for implementation. UKTI will shortly release a report on the benefits of the FTA to British businesses and undertake a promotional campaign to help raise awareness among UK firms.
13. Negotiations on the EU-Burma Investment Protection Agreement will hopefully resume shortly after the new government in Rangoon takes office in April.



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