

Key opportunities in ASEAN – Integration and Growth



Singapore's Chairmanship → Thailand's Chairmanship

- Singapore's ASEAN Chairmanship comes to a close at the end of 2018. Singapore chaired ASEAN with a theme of 'resilient and innovative', with a view to pushing ASEAN's unity in the face of growing uncertainties in the global strategic landscape. The Chairmanship rotates annually – The Philippines chaired with a theme of 'prosperity for all' in 2017, and Lao PDR chaired with 'turning vision into reality' in 2016.
- The ASEAN chair sets priorities for the year and chairs the ASEAN summit, the Coordinating Council and three ASEAN Community Councils – Political-Security, Socio-Cultural, and Economic. However, most initiatives are much longer-term and are approached on a rolling basis. Throughout 2018, Singapore chaired hundreds of official meetings – more than 90 of which were focussed on the economy – as well as hundreds of side-line meetings.
- Thailand will chair in 2019. While all chairs must balance their domestic agendas with the needs of the chairmanship, Thailand has several competing priorities in 2019. It is likely to have elections in the first half of the year and has not shied away from large-scale projects; the government of PM Prayut is forging ahead with its Eastern Economic Corridor ahead of the elections, which has international implications.
- As with many international institutions, progress can be slow. ASEAN also faces challenges due to its consensus model, significant developmental differences between member states, political diversity, and institutional capacity constraints. One major challenge for businesses operating in ASEAN is identifying and championing ASEAN-led developments that will deliver for business, creating a supportive regional business environment, and economic integration between ASEAN members.

Why integrate?

The ASEAN Economic Community, established in 2015, has a clear ambition – “a globally competitive single market and production base, with a free flow of goods, services, labour, investments and capital across ASEAN Member States (AMS)” – but the implementation of policies and the achievement of outcomes has been inconsistent.

The establishment of the AEC was a major milestone in itself, however integration beyond the removal of tariffs barriers has been limited, as has the development of physical, digital and technical infrastructure among all AMS.

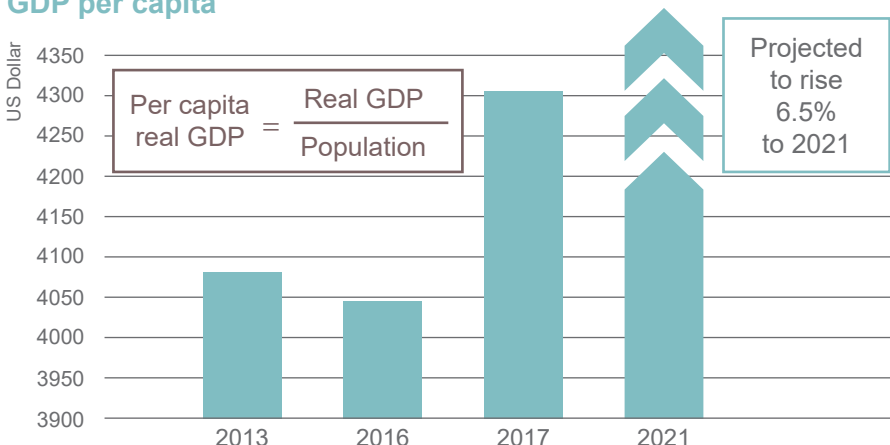
Pursuing integration further is based on the idea that the AEC provides immense opportunities – it is a collective market of over US\$2.4 trillion with over 642 million people. Collectively it is the 6th largest economy in the world and the 3rd largest in Asia.

The indicators for growth potential are impressive. ASEAN’s GDP growth is projected to average 5.4% from 2018 – 2022 and infrastructure spending in ASEAN will need to reach US\$ 2,759 billion by 2030 in order to cater for civil and economic needs.

By some estimates ASEAN has the potential to be the world’s fourth largest single market by 2030. Further economic integration could increase regional GDP by 7.1% and create 14 million additional jobs. This will depend on ASEAN increasing integration and harnessing its growth potential.

Business may be uncertain as to how the ASEAN institutional machine can deliver on this potential. However, there are relatively low-hanging fruit that avoid the political minefields found in other areas, such as addressing competitive non-tariff barriers in sectors such as automobiles, or the freedom of movement of labour across ASEAN. The following outlines some of the ‘low-hanging fruit’ which the business community can support to help unlock ASEAN’s growth potential in the coming years.

GDP per capita



The ASEAN Economic Community

a collective market of

us\$2.4 trillion

642 million people

The 6th largest economy in the world

The ASEAN growth potential

Increase GDP growth

7.1%

Infrastructure spending

us\$2,759 billion until 2030

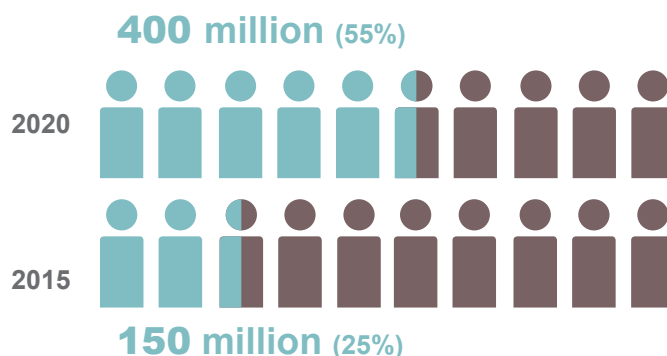
4th world's largest single market by 2030

14 million Additional jobs

1. Cross-border payments

ASEAN's demographics are ripe with opportunity – there is a growing middle class, a very high percentage of the population is of working age and domestic consumption is on the rise. GDP per capita is projected to grow 6.5% from 2017 – 2021, with disposable incomes to rise up to 10%. There are also high rates of personal technology adoption – ASEAN has hundreds of millions of mobile phone and internet users, projected to rise to 480 million by 2020.

Estimated Middle Class Population in ASEAN



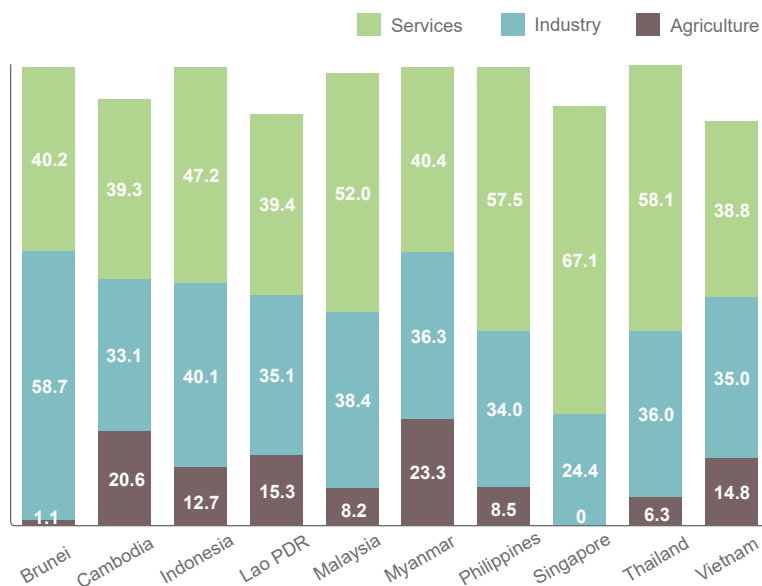
Enabling greater access to cross-border payments would allow businesses and economies at large exploit the huge opportunity these trends present in e-commerce, as large and growing digital consumer populations could be integrated effectively into online consumer markets. This would have a compound effect on overall development as financial inclusion increases.

Singapore has been successful in developing an e-commerce framework agreement as a starting point for further action. Exploiting these trends more fully would necessitate implementation of this agreement, increased use of the ASEAN Single Window for trade, as well as widespread improvements in digital infrastructure. **Aside from e-commerce, this would enable growth in related sectors including logistics and online retail banking.**

2. ASEAN Framework Agreement on Services

The service sector is the biggest contributor to GDP for 9 out of the 10 ASEAN nations and is projected to generate up to 70% of the region's GDP in the medium term. Yet non-tariff barriers in the service sector remain high. Based on the ASEAN agenda for 2018, there is relatively little time spent on pursuing the ASEAN Framework Agreement on Services, or the ASEAN Trade in Services Agreement, compared to time spent on reduction of tariffs and trade in goods – where an average of 98.6% of import duties have already been eliminated.

GDP Per Sector



Out of approximately 92 scheduled economic meetings in 2018, only 5 were focussed specifically on services and another 6 on either banking and investment. In order to successfully develop the services market and effectively implement the two related framework agreements, there needs to be an **enhanced focus on development and liberalisation of the services sector and related sub-sectors, as well as aligning commitments in member states.** Mobility agreements around certain professions would allow technical transfers and knowledge sharing.

3. Financial Services

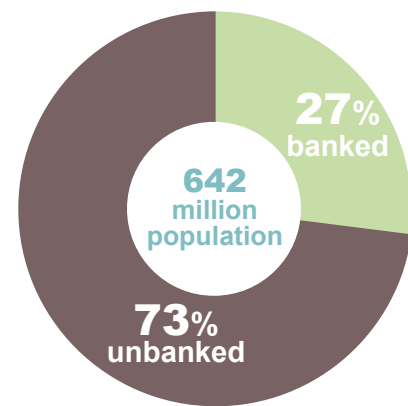
Whilst banking and financial services comes under the ASEAN Framework Agreement on Services, **developing financial market integration and financial services** inclusion are specific aspects that ASEAN has made limited progress on, and where improvements would significantly support both micro- and macro-economic growth and development.

In terms of commercial and investment banking, as well as financial markets, this would include policies designed to deepen capital markets, provide liquidity support, align regulations, develop sovereign bond markets and develop financial market infrastructure throughout AMS. This is most relevant to the major ASEAN economies of Indonesia, Malaysia, Philippines, Singapore, and Thailand.

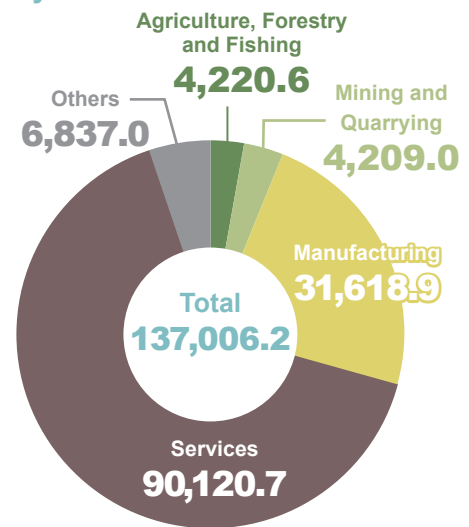
An untapped opportunity exists in the unbanked population in ASEAN. In 2016 only 27% of the ASEAN population had a bank account. Access to services is a major road-block here, a gap that digital technology will be able to fill.

Technical developments will be key to this – a space where the private sector can contribute by advising ASEAN governments. This would have a compound effect on economic growth as liquidity issues for large financial services providers, and access to retail banking for the population, are key constraints to enhanced integration and growth in all sectors. It would have a circular effect, furthering e-commerce and access to and development of the broader services market.

ASEAN Banked population



ASEAN Net FDI inflows by Sector



4. Cyclical recovery: a warning

ASEAN's economic growth has generally been a success story. Whilst part of this has been due to significant economic reforms, it has also been due to the cyclical recovery in the broader region and the global economy – a pattern which characterises long-term economic growth world-wide. Developing a renewed focus on several important areas of growth is essential to combating cyclical growth stagnation, as well as ensuring businesses can capitalise effectively on realistic growth opportunities. This is especially pertinent amid the growing global trade tensions that could affect ASEAN, based on its high trade-to-GDP ratio of around 87% and spill-over market confidence impacts.

There is a possibility that a slow-down in economic growth would cause governments to focus on domestic issues instead of integration. Conversely, **ASEAN can view this as a time of opportunity to focus on economic growth – especially as a more integrated ASEAN could benefit from a US-China trade war**, as manufacturing and supply-chains are diverted.

The Economic cycle

