

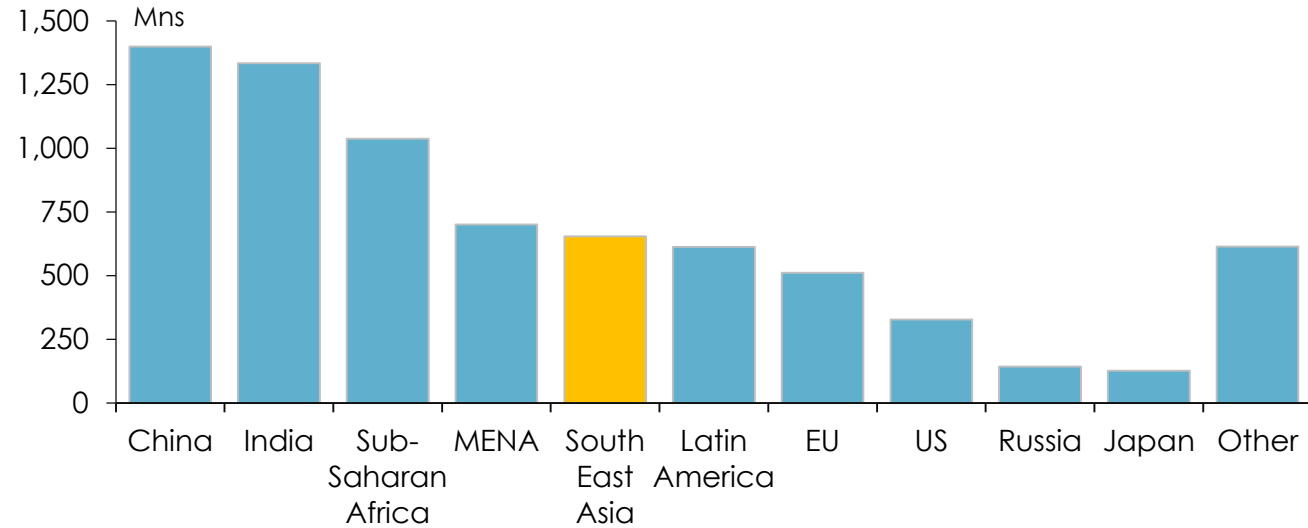
# SOUTH-EAST ASIA

PRESENTATION TO ICCBE 2018

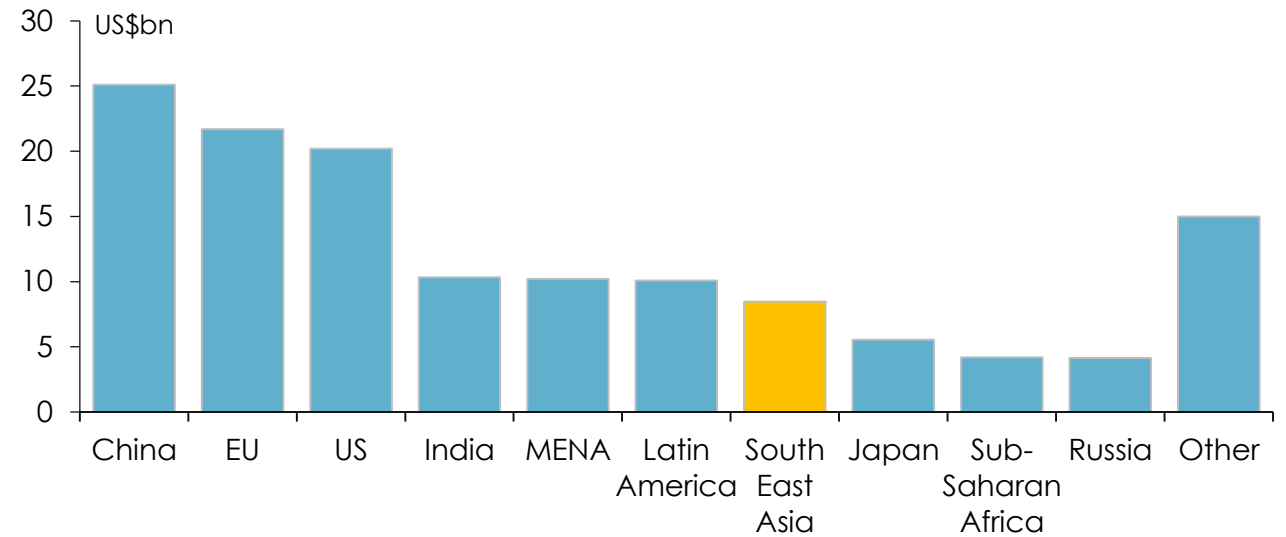
THE INTERNATIONAL CONFERENCE OF COMMERCIAL BANK ECONOMISTS  
NEW YORK, 10<sup>TH</sup> JULY 2018

# South-East Asia is one of the world's more populous regions – but not one of the world's largest economic regions

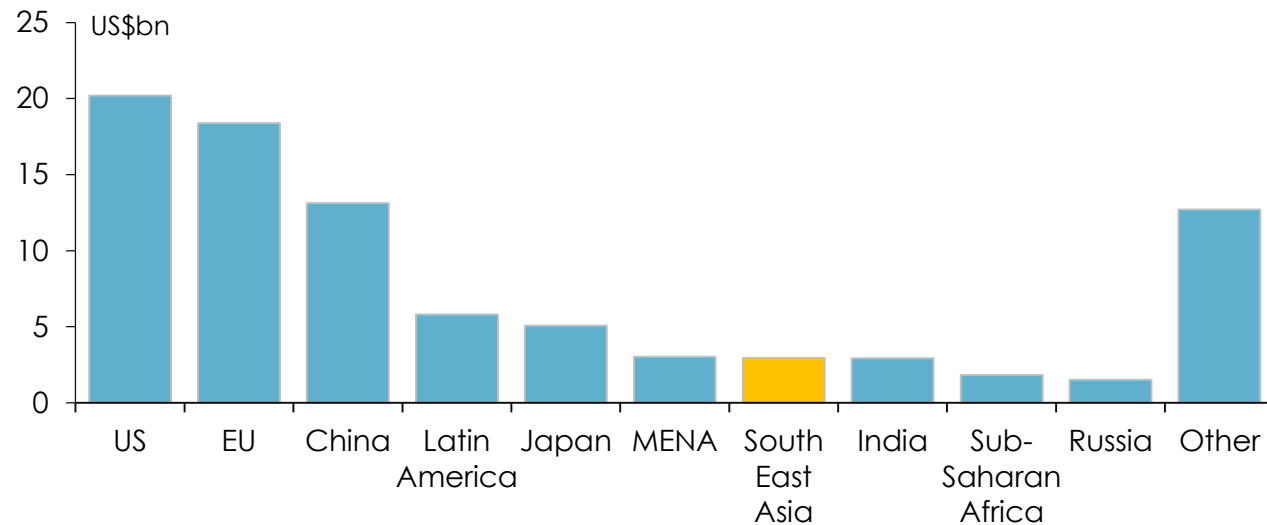
## Population, 2018



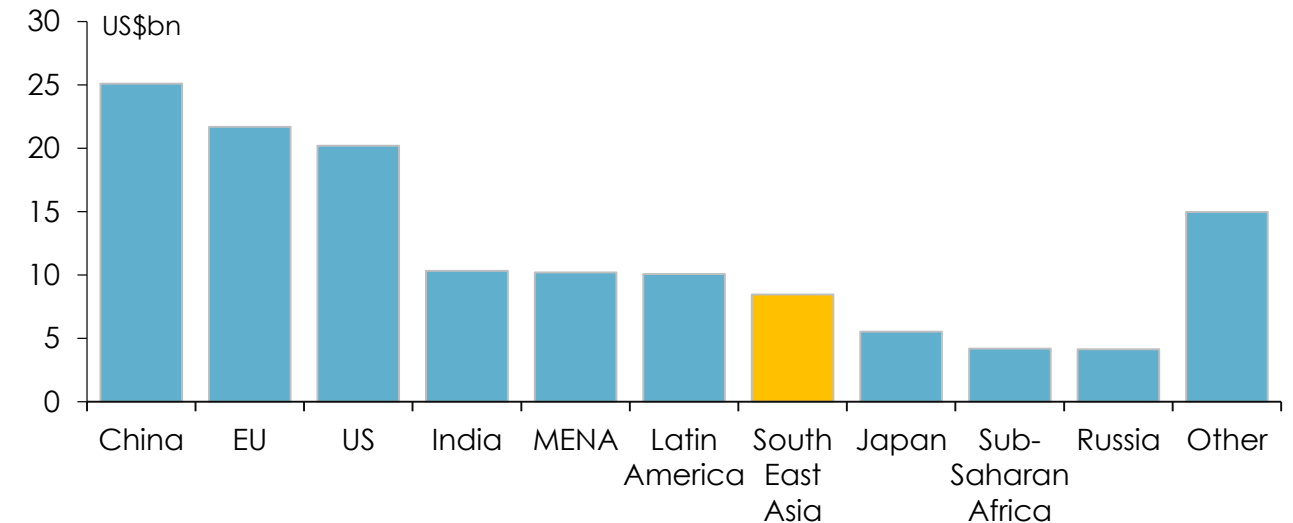
## GDP at purchasing power parities, 2018



## GDP at market exchange rates, 2018



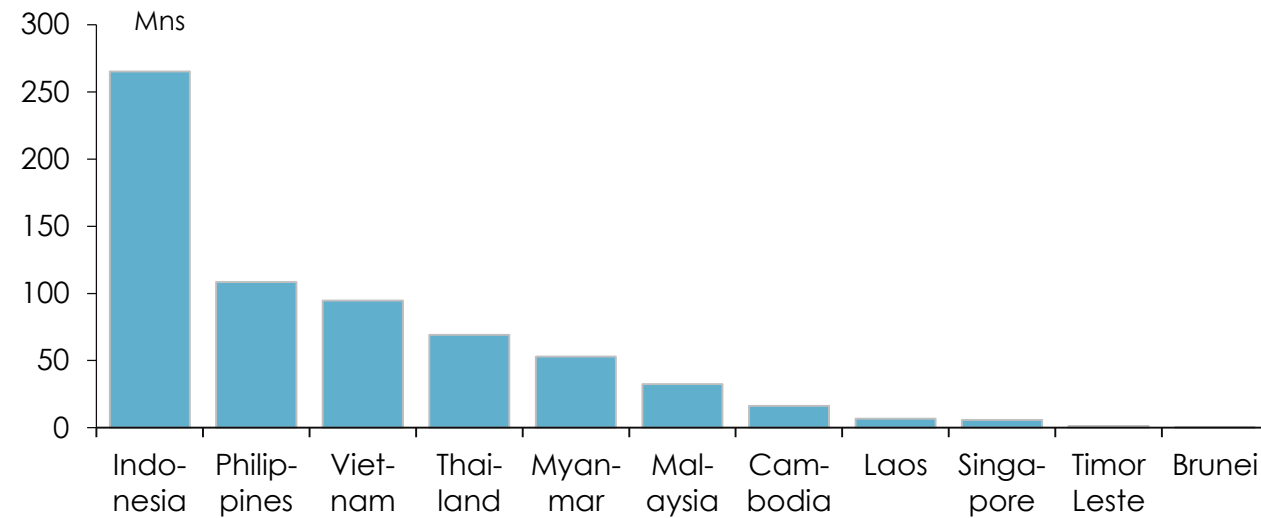
## GDP per capita at PPPs, 2018



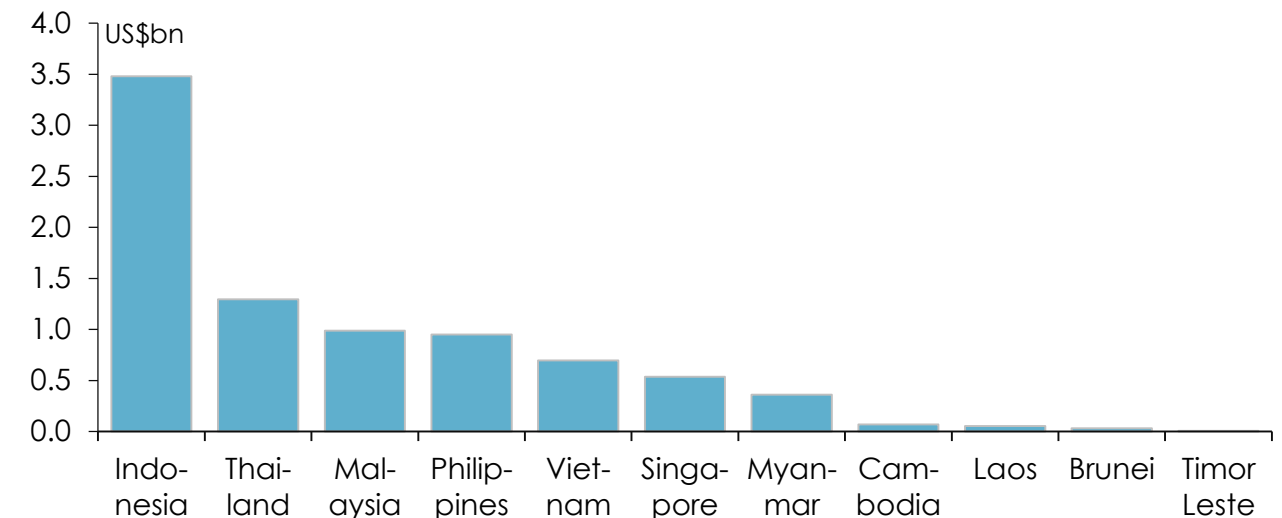
Note: MENA (Middle East & North Africa) includes Afghanistan and Pakistan. Latin America excludes Cuba. Source: IMF, World Economic Outlook database, April 2018.

# South East Asia comprises a broad spread of large and small countries – and ‘advanced’ vs middle- and low-income developing economies

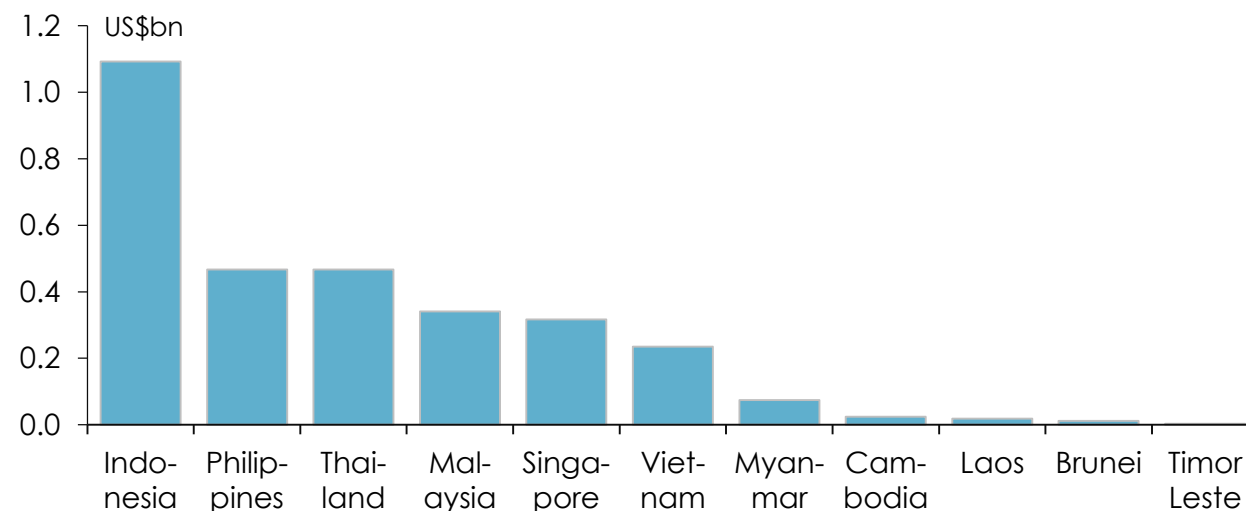
## Population, 2018



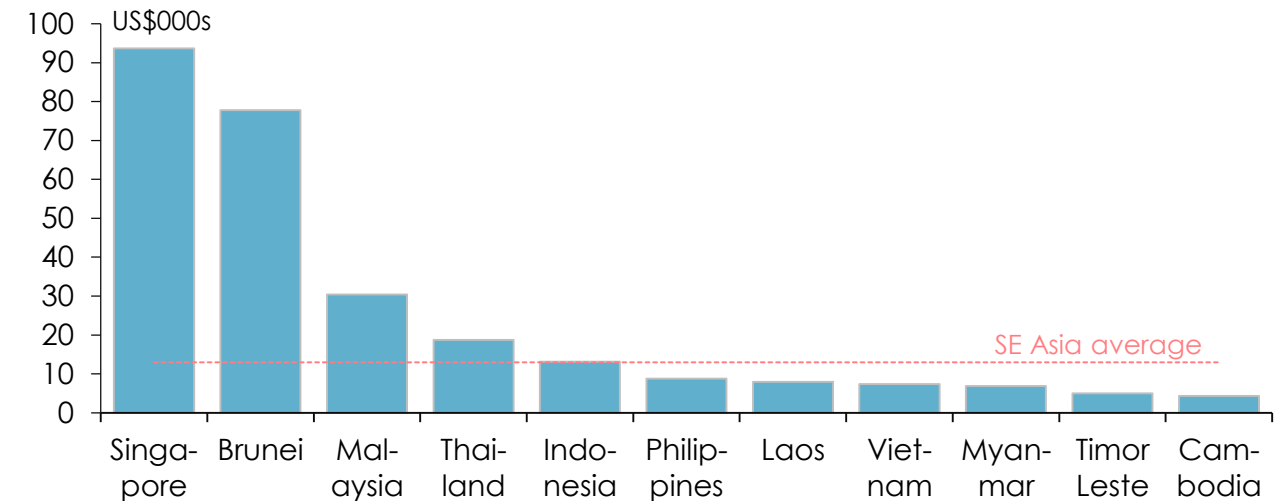
## GDP at purchasing power parities, 2018



## GDP at market exchange rates, 2018

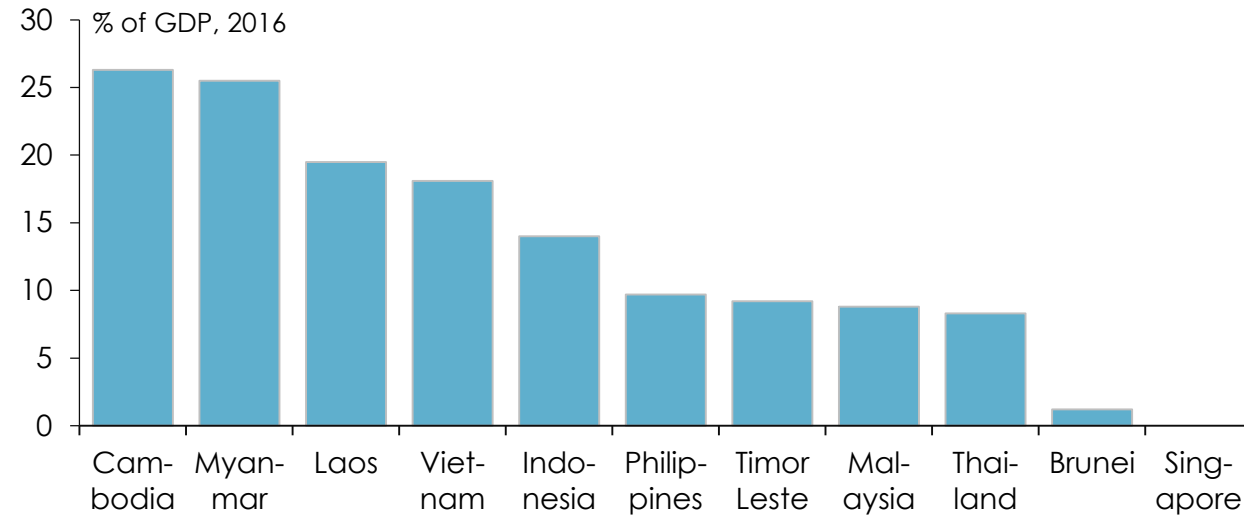


## GDP per capita at PPPs, 2018

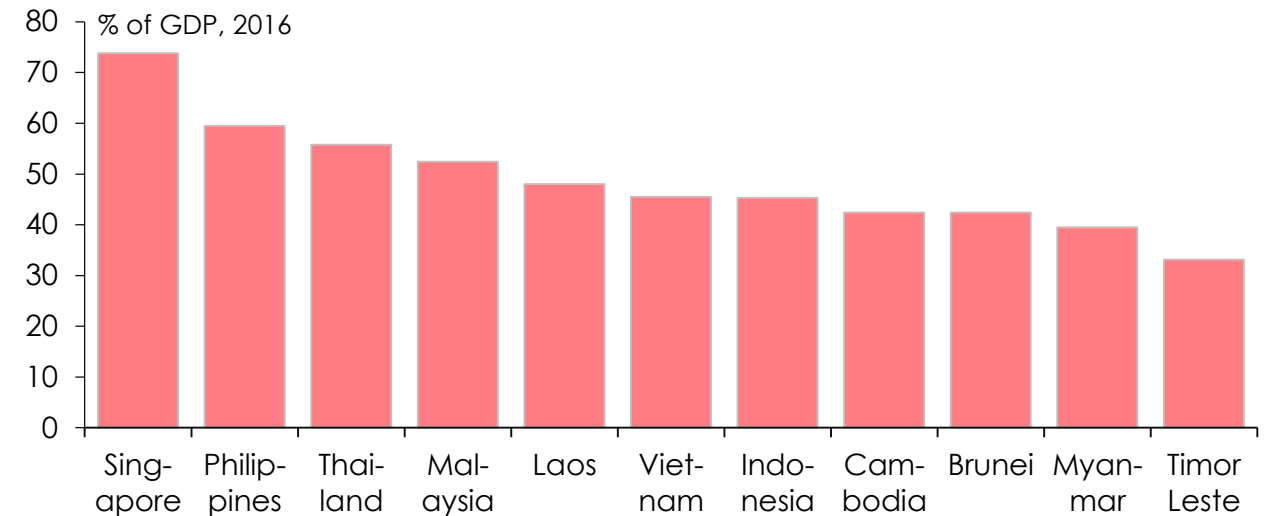


# There's enormous diversity in the structure of South-East Asia's economies

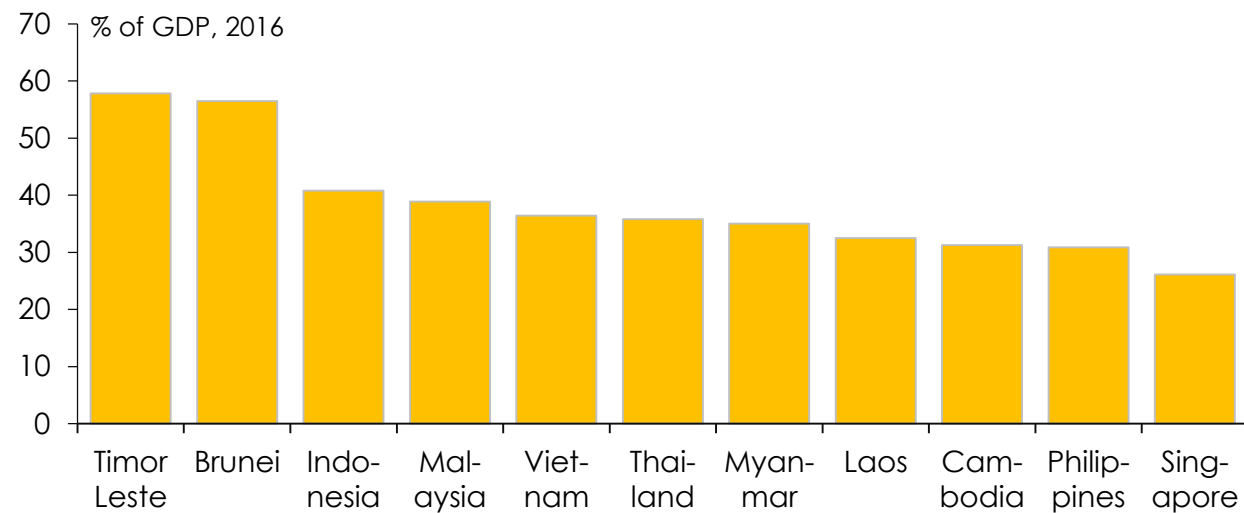
## Agriculture as a pc of GDP



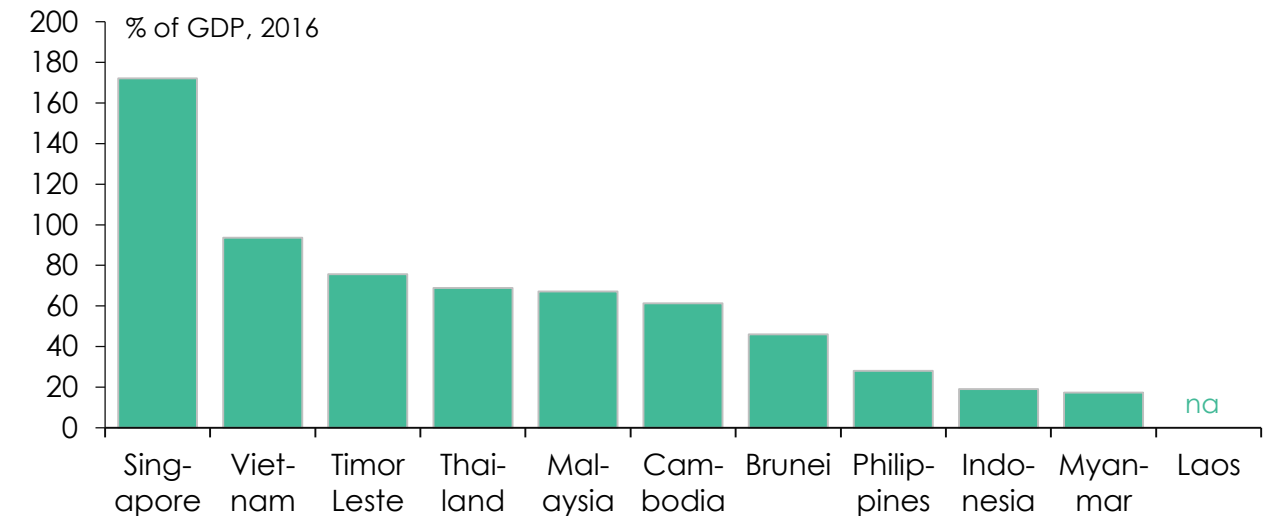
## Services as a pc of GDP



## Industry as a pc of GDP



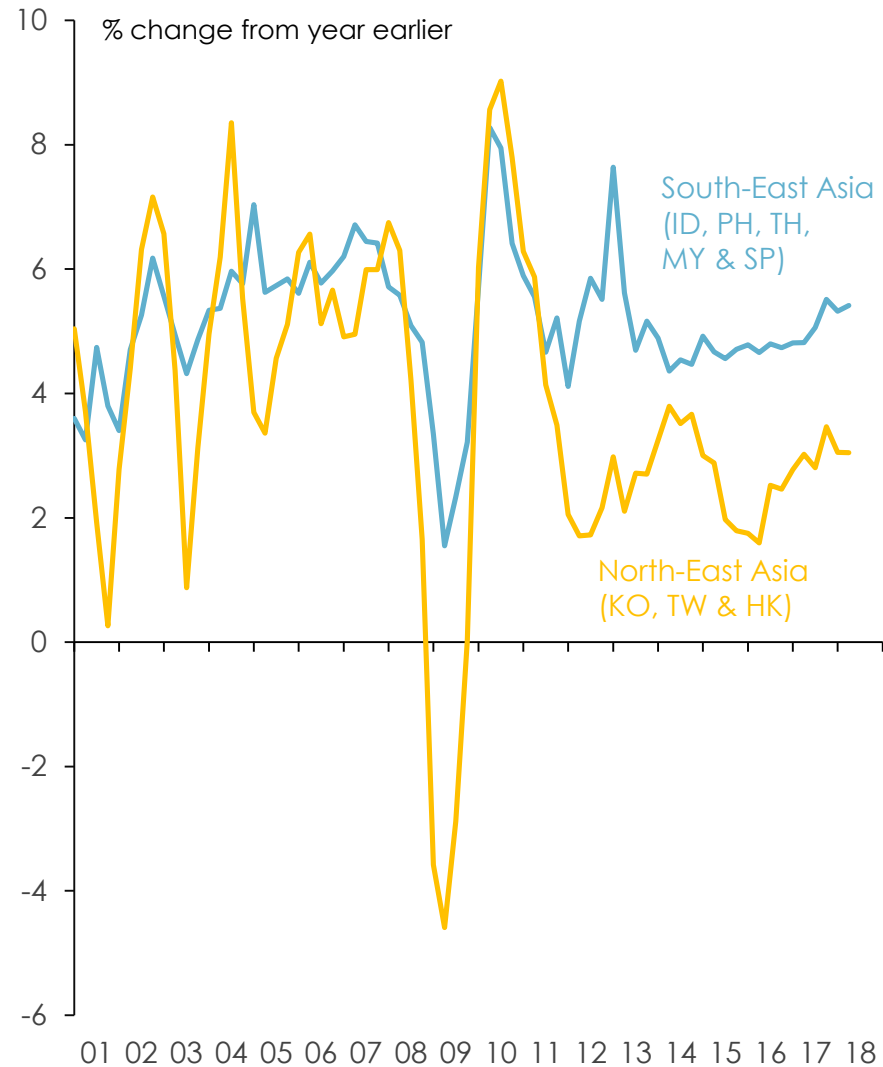
## Exports of goods and services as a pc of GDP



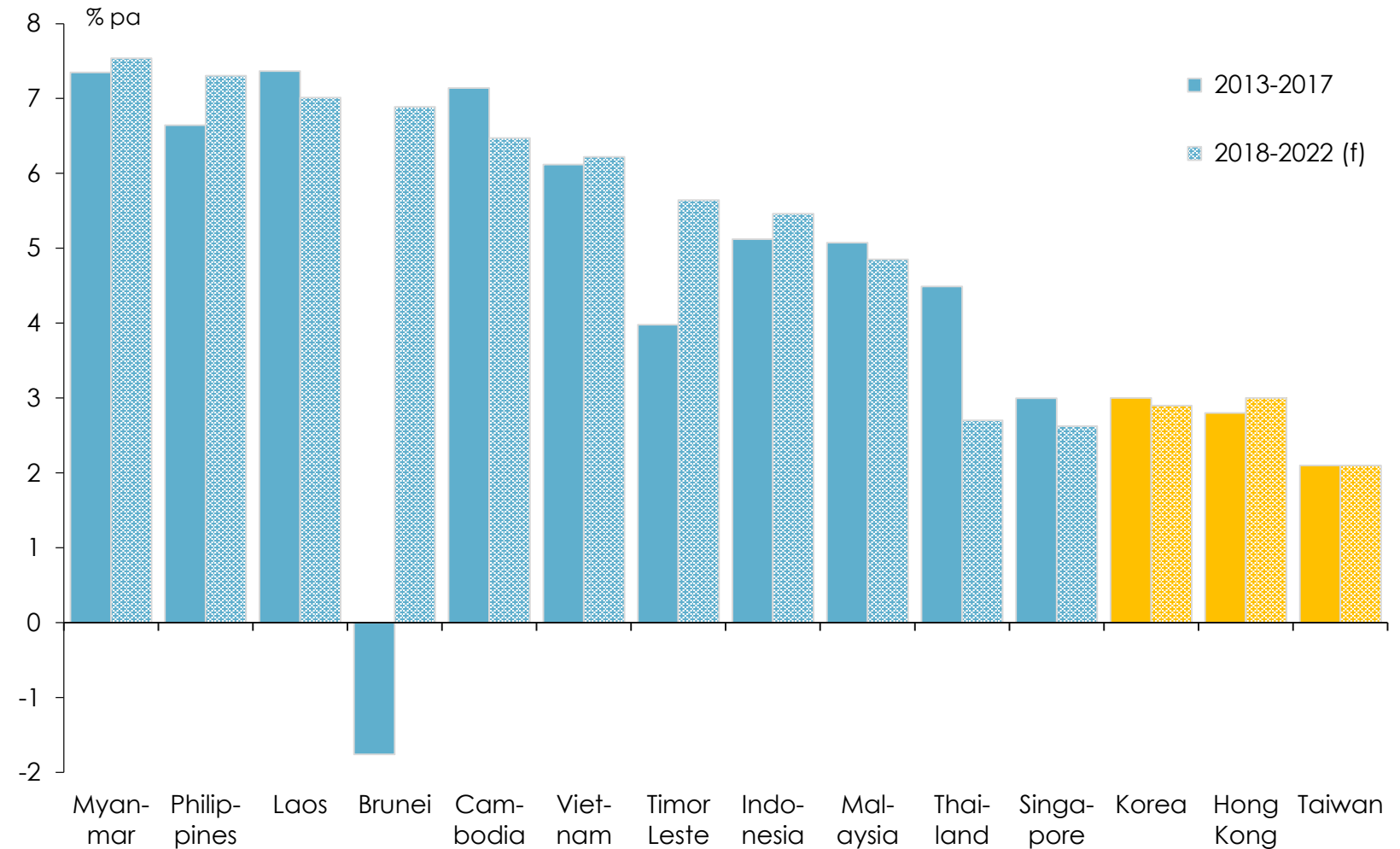
Note: 'Industry' includes oil and gas. Data for Timor-Leste are for 2015. Source: Asian Development Bank, *Key Indicators for Asia and the Pacific*, 2017.

# South-East Asian economies have grown faster than North-East Asian economies since the financial crisis – and this looks set to continue

## Real GDP growth, 2001-2018



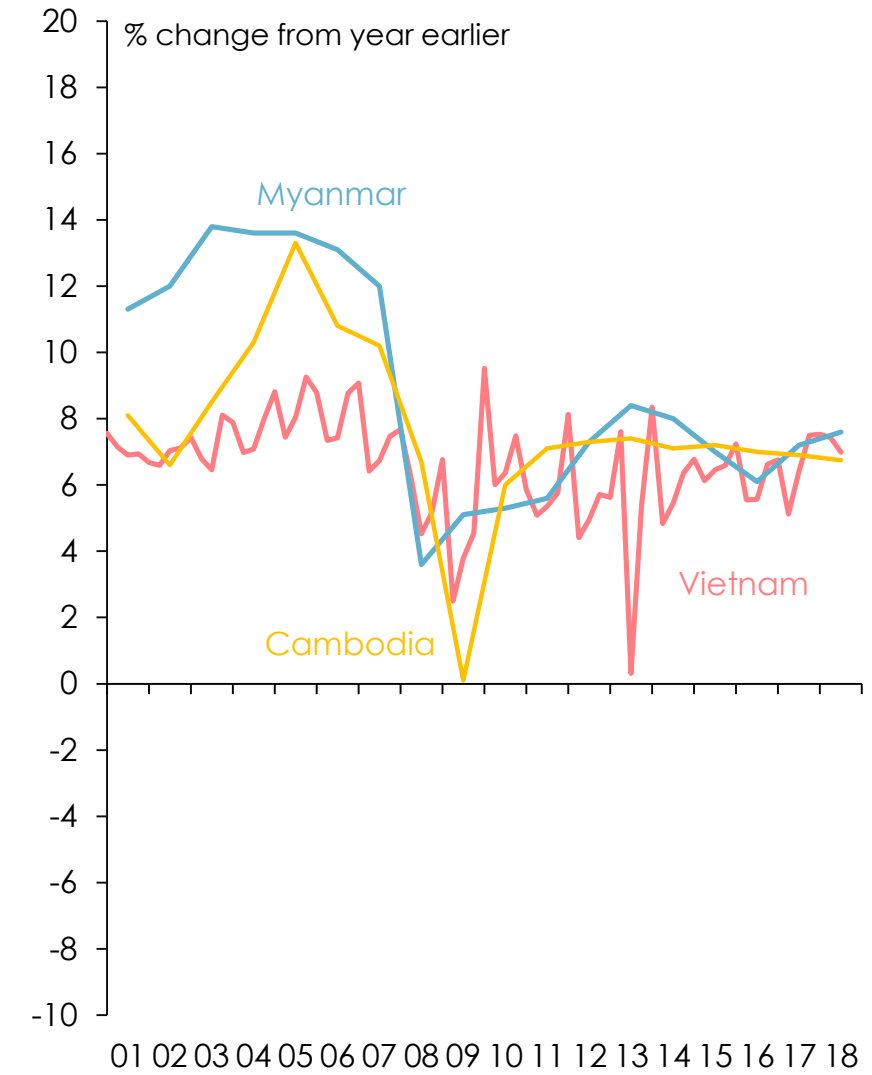
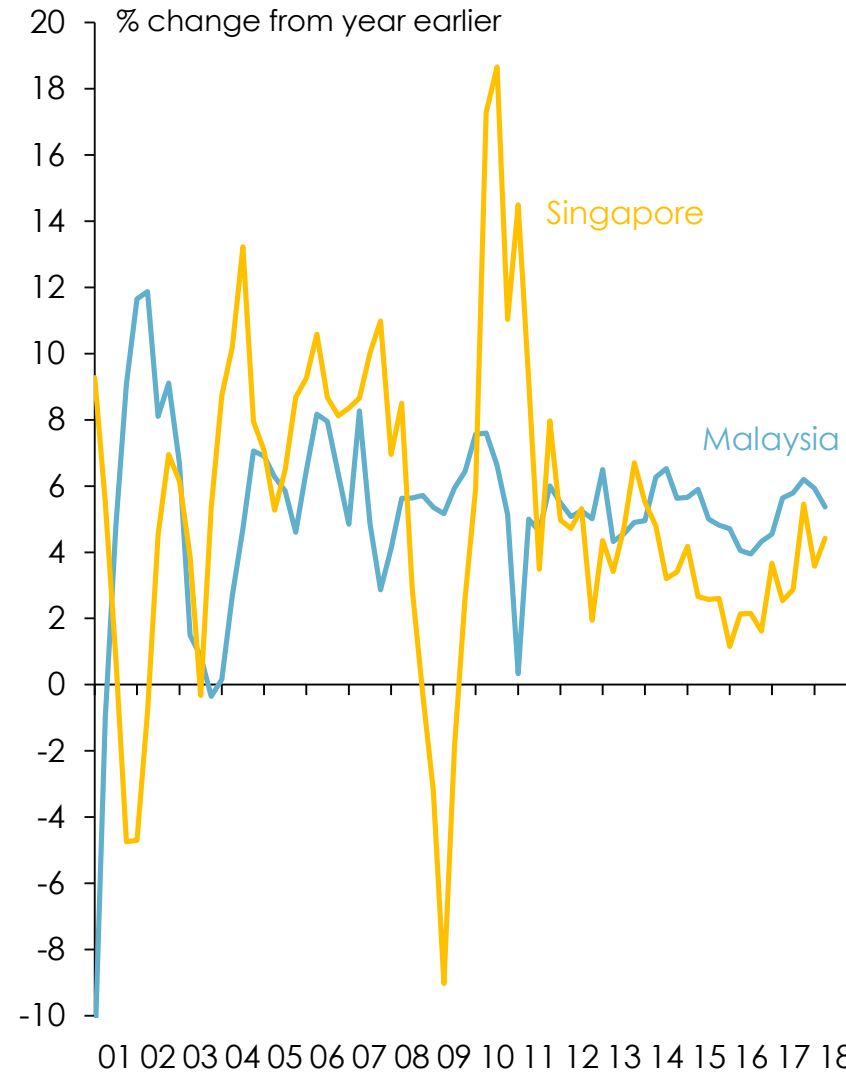
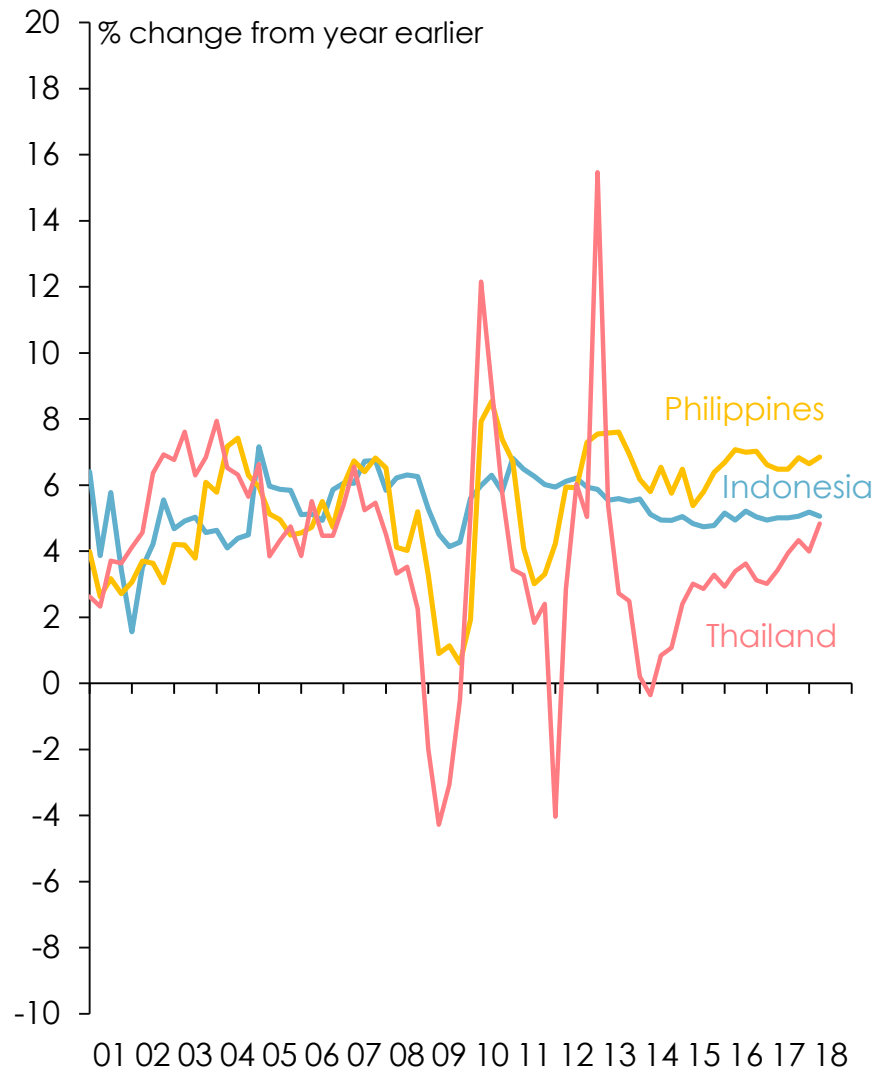
## GDP growth 2013-2017 and forecasts for 2018-2022



Sources: National statistical agencies and/or central banks; IMF (for Myanmar and Cambodia). Forecasts for 2018-22 from IMF *World Economic Outlook* April 2018.

# Most South-East Asian economies have experienced steady growth in recent years, with Thailand and Singapore picking up most

## Real GDP growth, 2001-2018

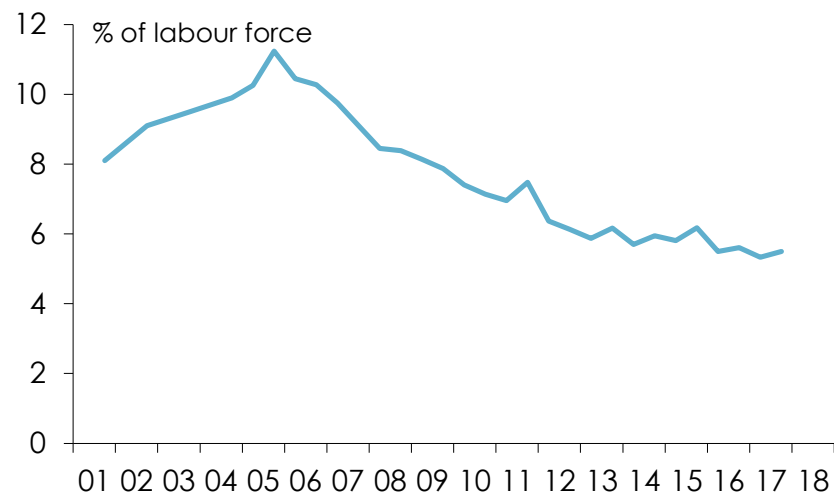


Sources: National statistical agencies and/or central banks; IMF (for Myanmar and Cambodia).

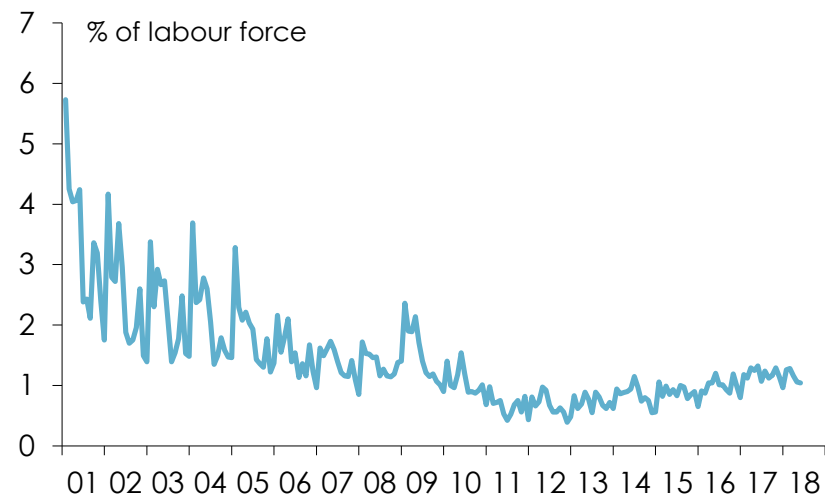
# Unemployment rates have been steadily edging down in most South East Asian economies, other than Thailand and Malaysia

## Unemployment rates, 2001-2018

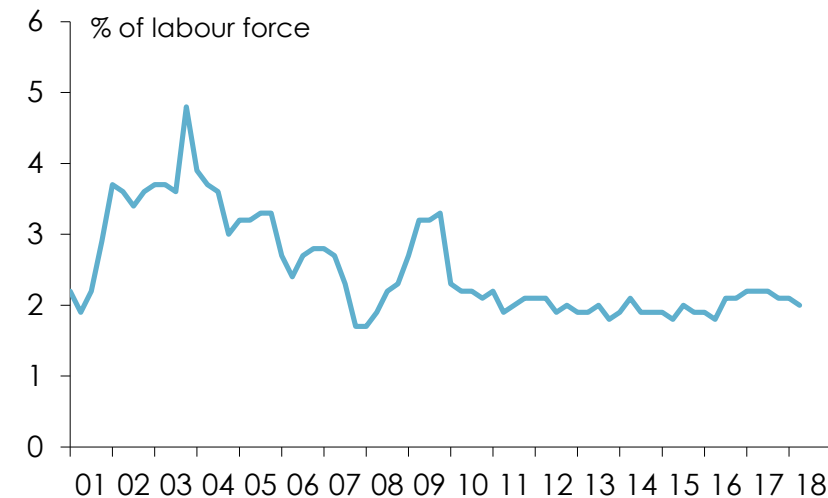
### Indonesia



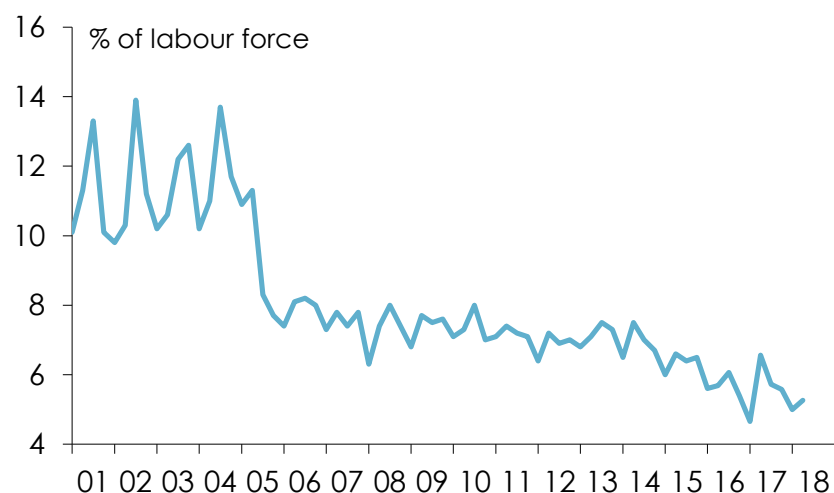
### Thailand



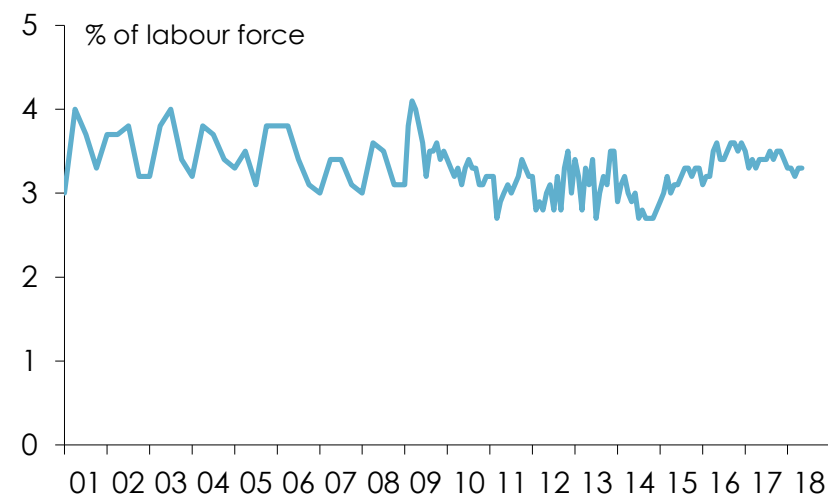
### Singapore



### Philippines



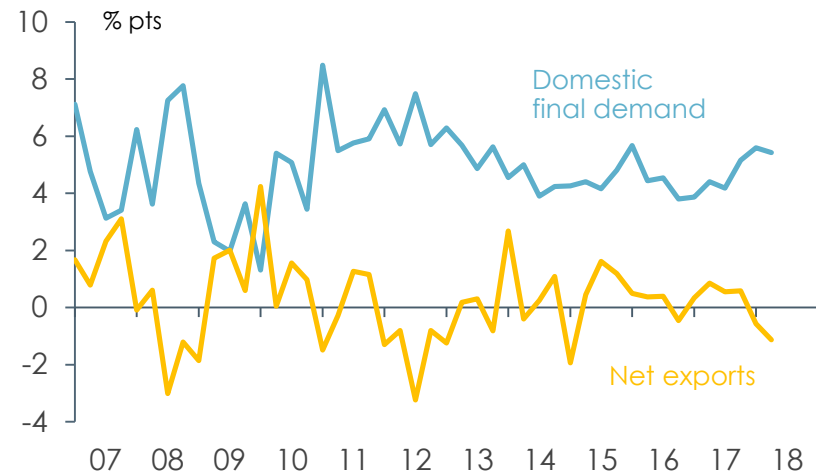
### Malaysia



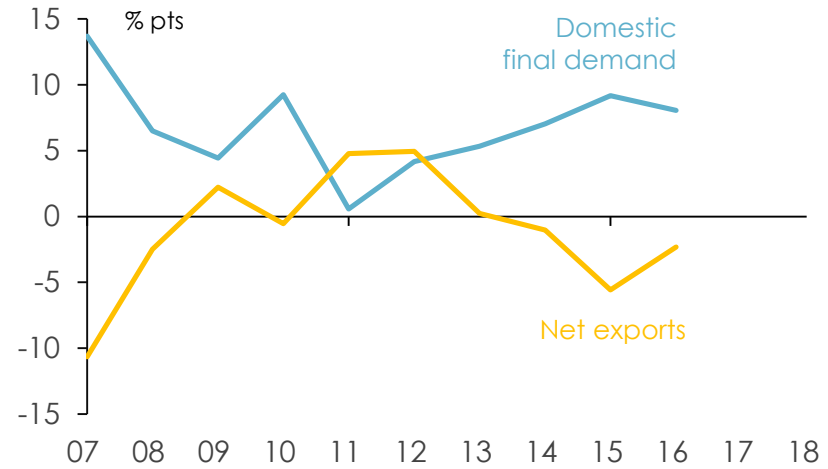
Note: except for Singapore, unemployment rates are not seasonally adjusted. Sources: National statistical agencies.

# South-East Asian economic growth has owed surprisingly little to net exports

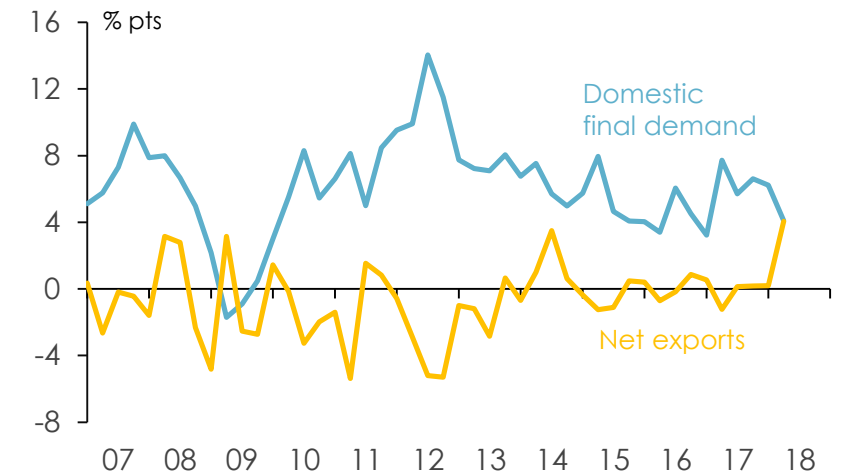
## Real GDP growth, 2001-2018 Indonesia



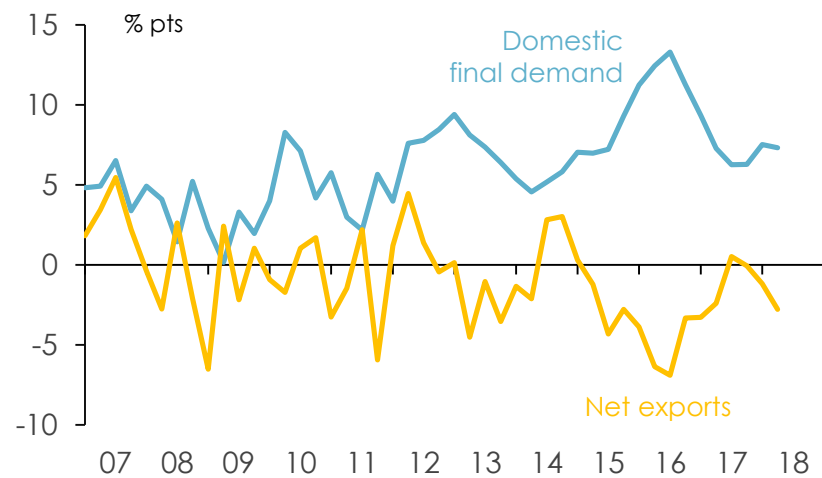
## Vietnam



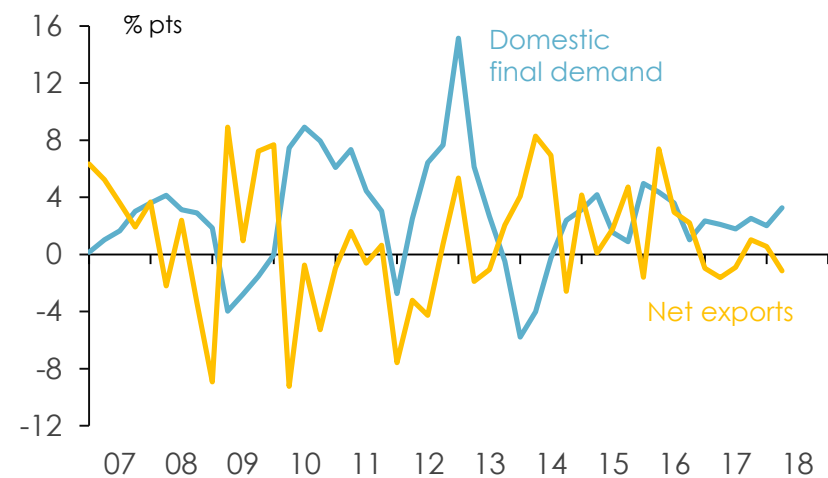
## Malaysia



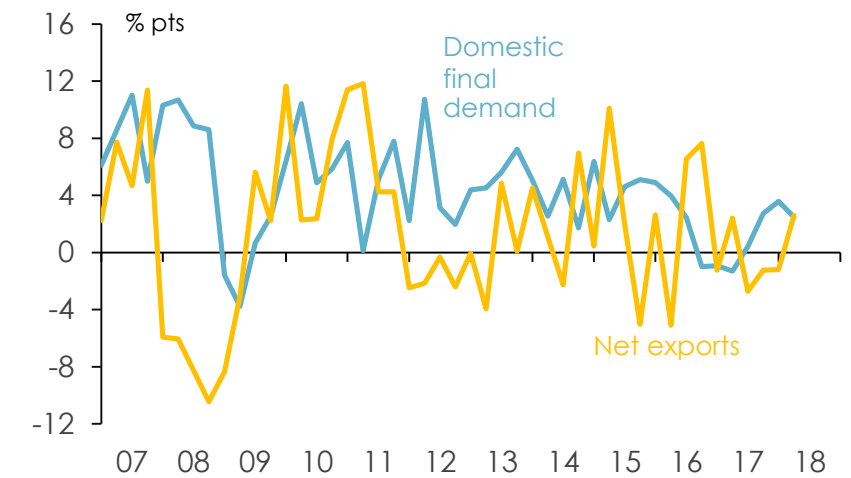
## Philippines



## Thailand



## Singapore



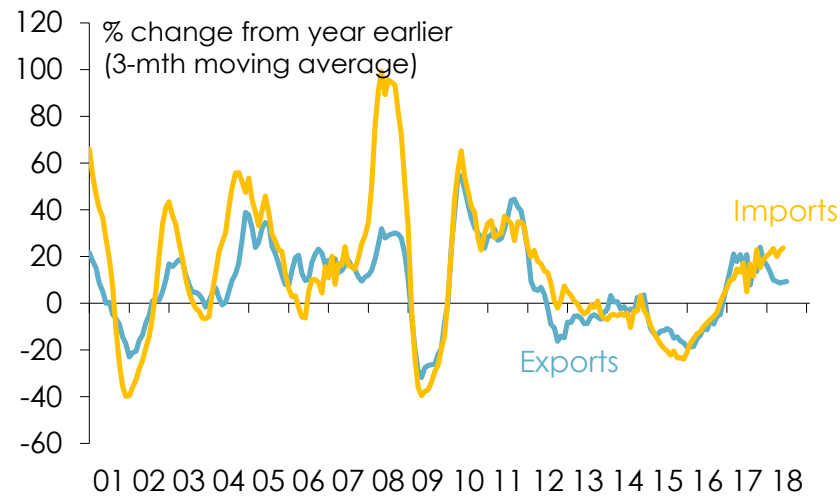
Sources: National statistical agencies and/or central banks. Note that inventories contributed +3.1 pc pts to reported real GDP growth in Thailand over the year to Q1 2018, cf. -7.5 pc pts over the year to Q1 2016. Inventories subtracted 2.5 pc pts from real GDP growth in Malaysia over the year to Q1 2018.



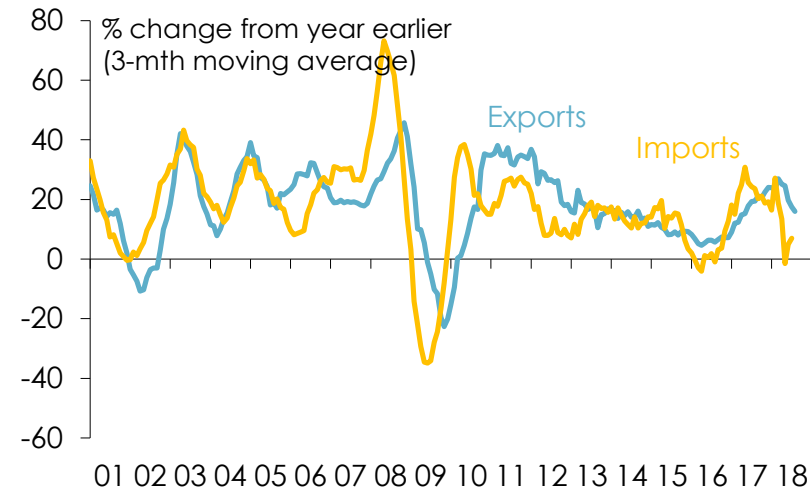
# That's because in most cases the upswing in exports has been paralleled by an increase in imports

## Merchandise exports and imports (US\$ terms), 2001-2018

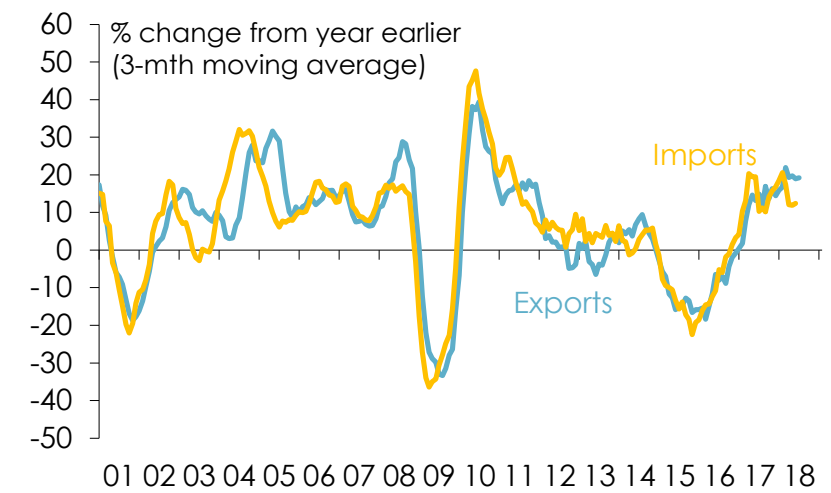
### Indonesia



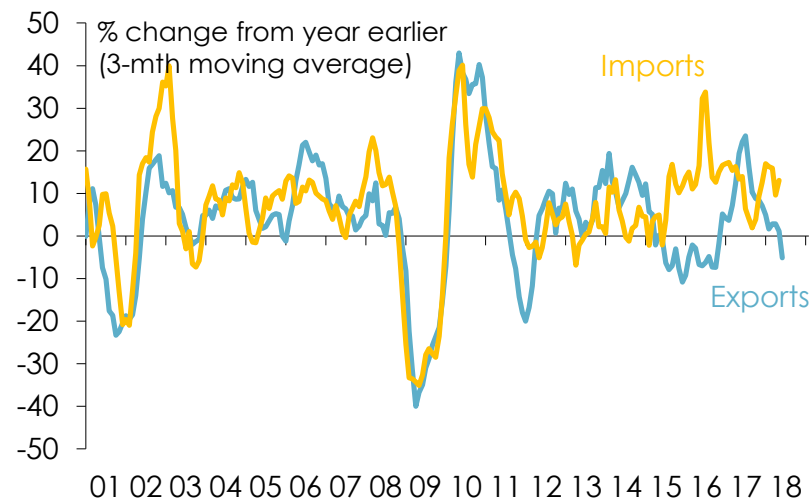
### Vietnam



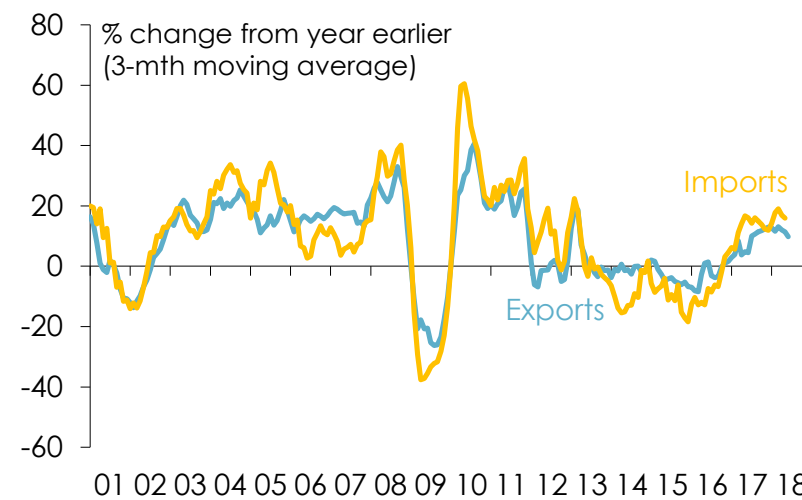
### Malaysia



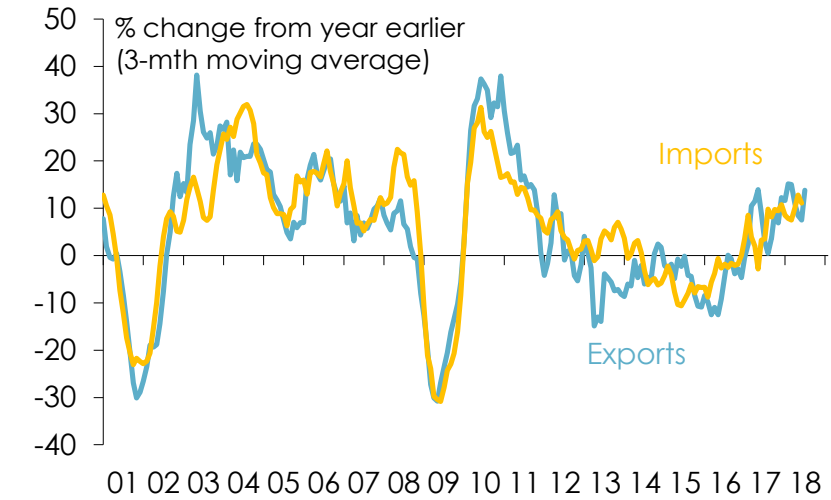
### Philippines



### Thailand



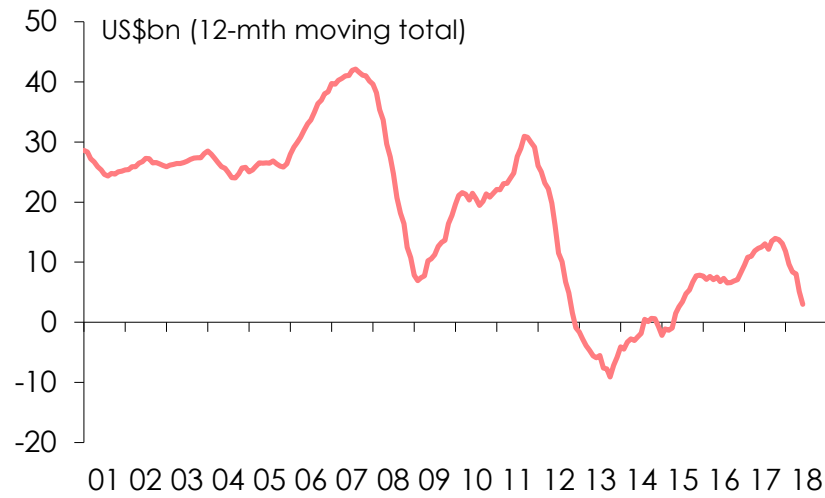
### Singapore



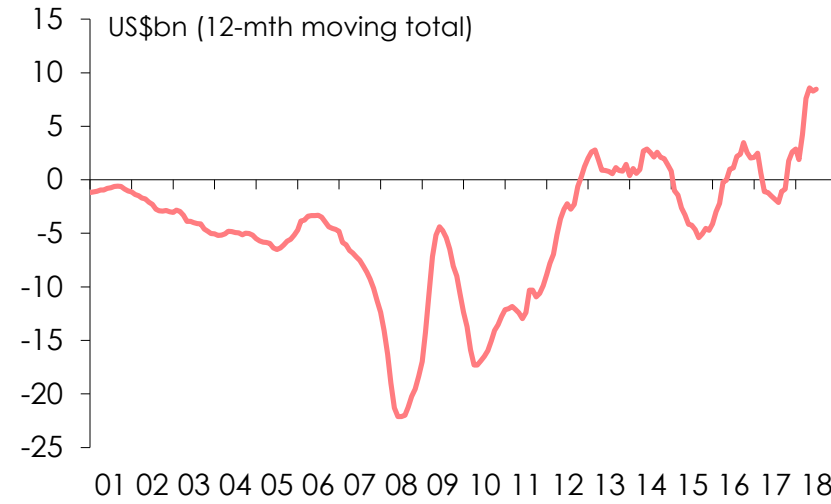
# South-East Asian countries, apart from Vietnam and Thailand, haven't experienced improvements in their (merchandise) trade balances

## Merchandise trade balances (US\$ terms), 2001-2018

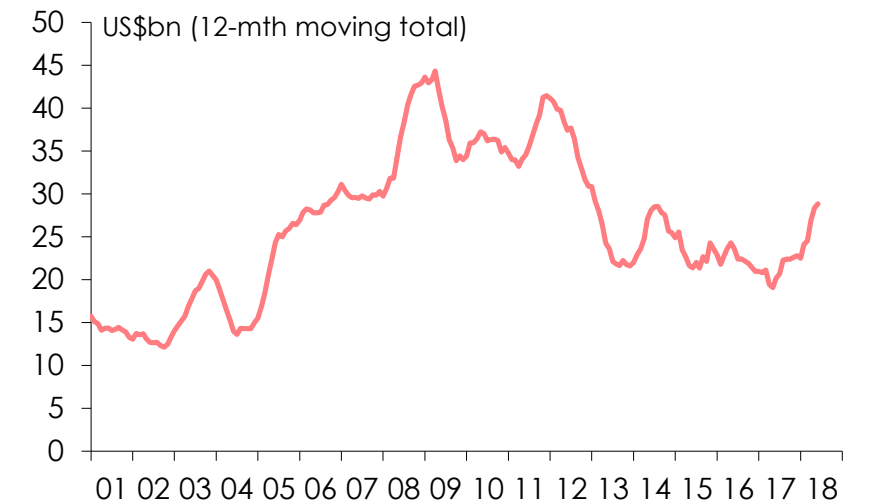
### Indonesia



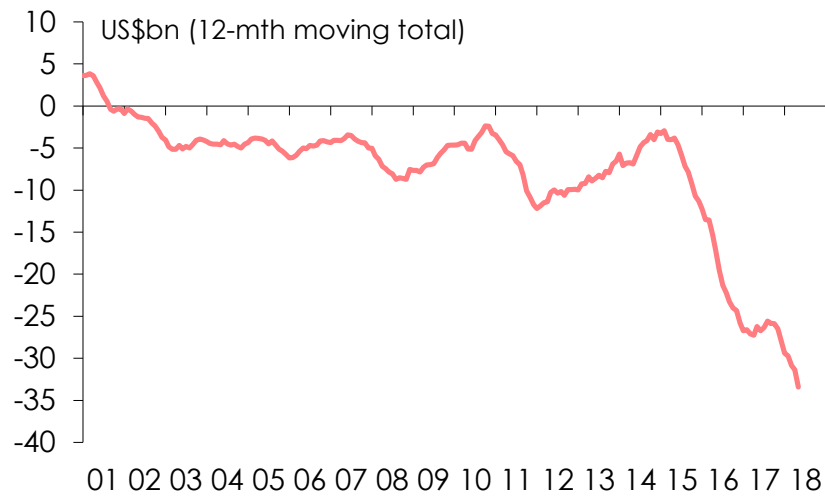
### Vietnam



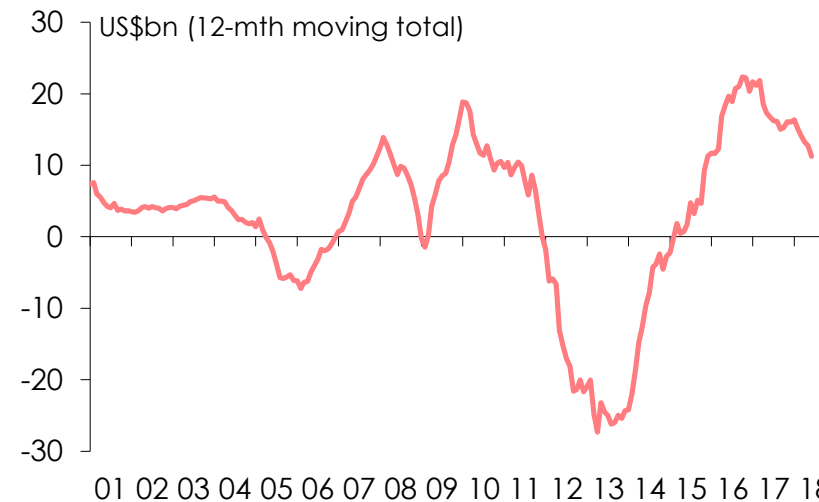
### Malaysia



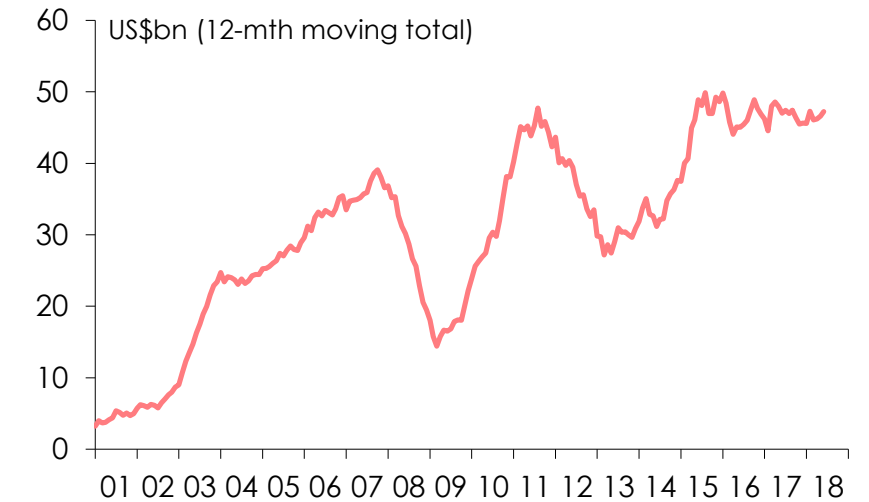
### Philippines



### Thailand



### Singapore

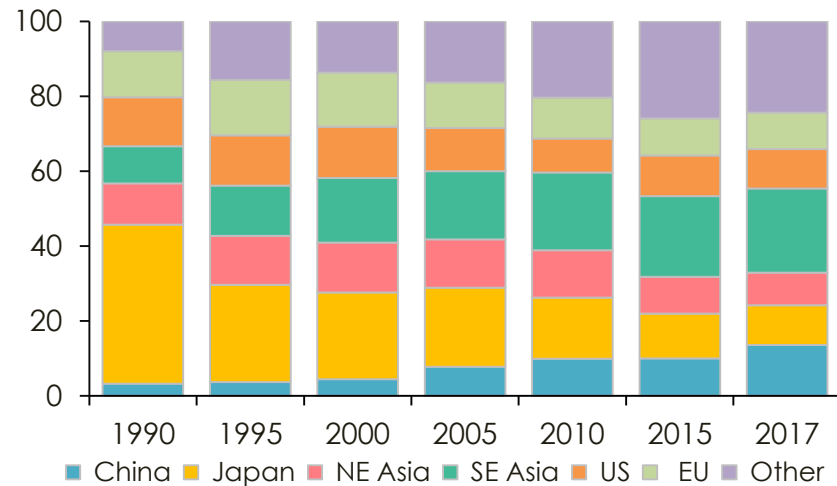


Sources: National statistical agencies and/or central banks.

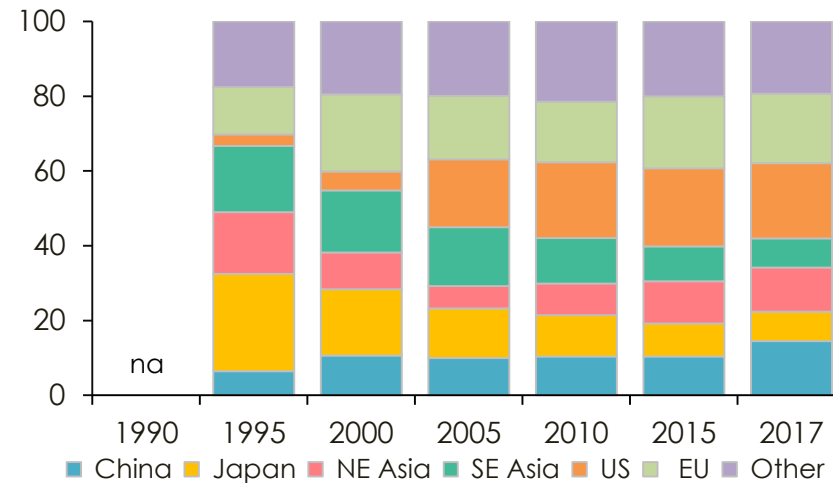
# South-East Asian countries' exports to China have been increasing but remain less important than 'advanced' economies (or each other)

## Merchandise export destinations, 1990-2017

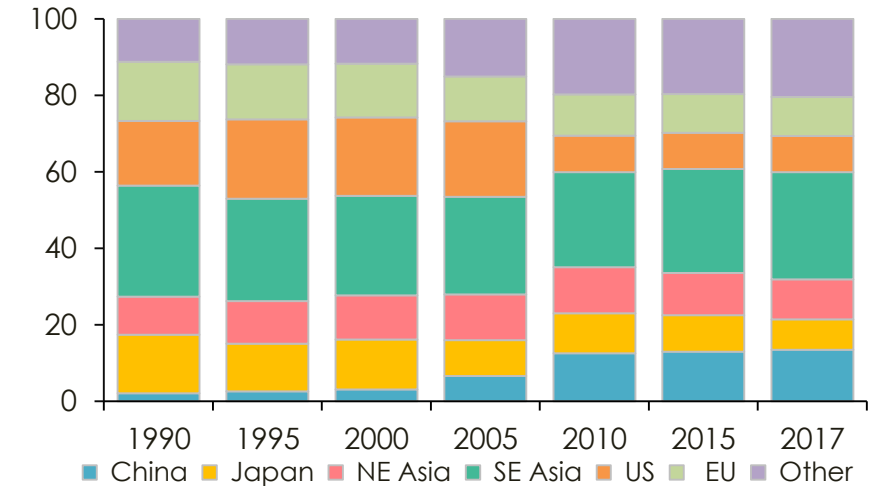
### Indonesia



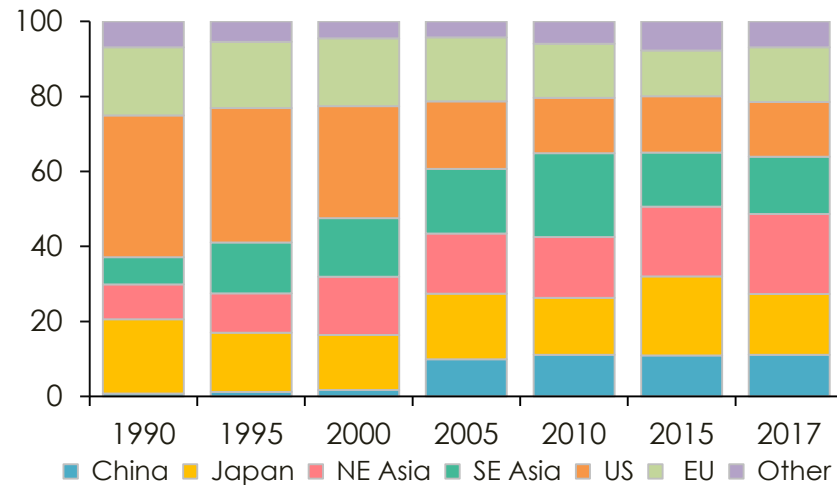
### Vietnam



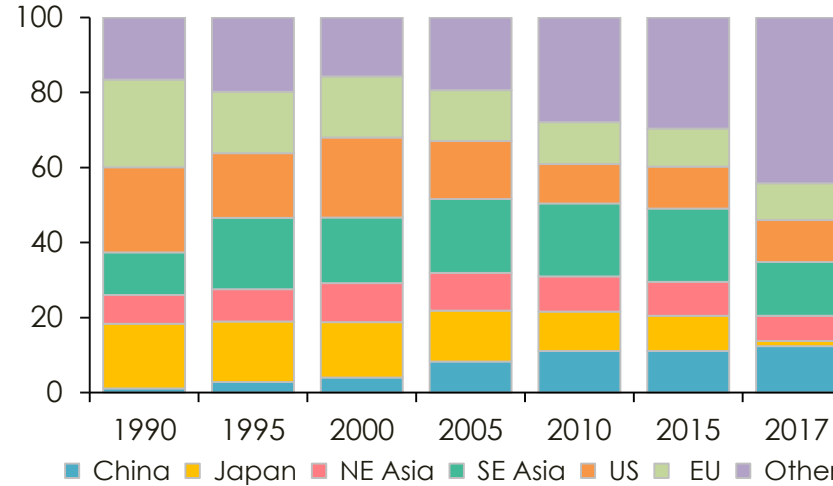
### Malaysia



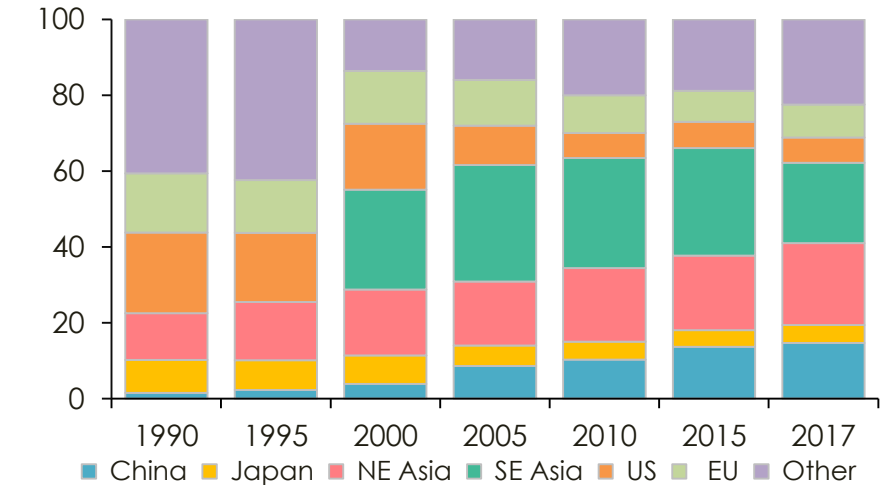
### Philippines



### Thailand



### Singapore

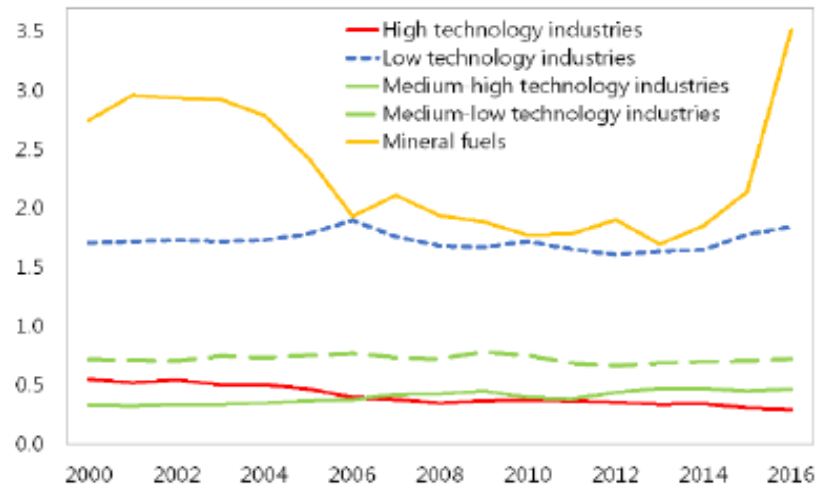


Note: Singapore did not publish data on its trade with Indonesia prior to 2000. Sources: IMF, *Direction of Trade Statistics*.

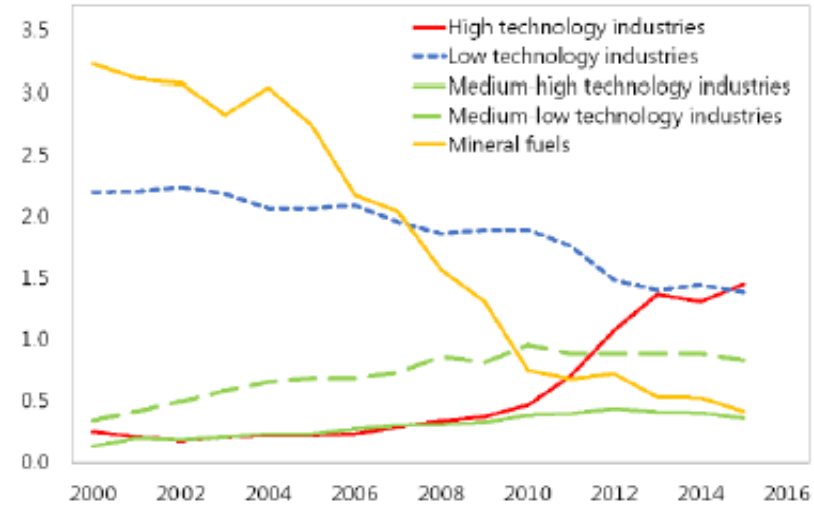
# Indonesia & Malaysia still heavily dependent on energy exports, other countries more competitive in high- or medium-technology exports

## Revealed competitive advantage, 2000-2016

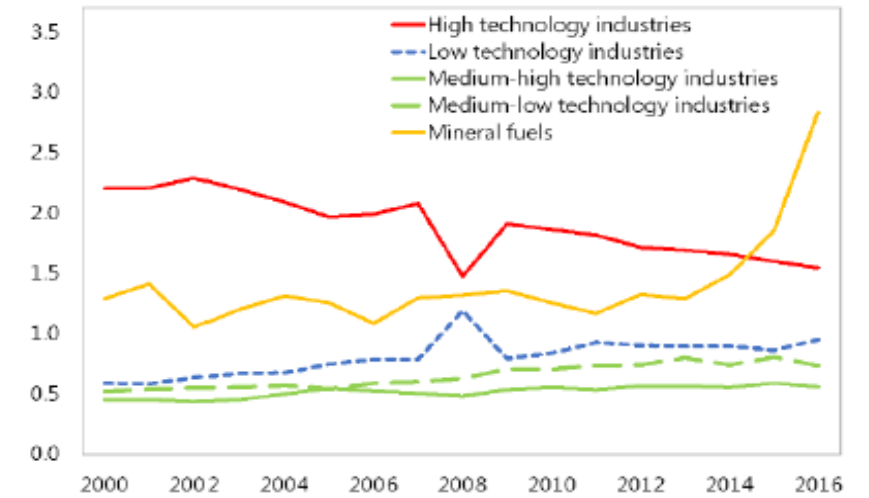
### Indonesia



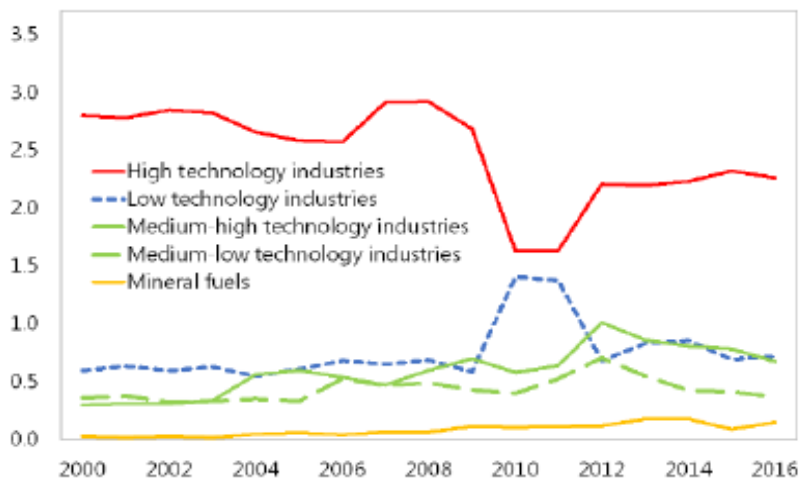
### Vietnam



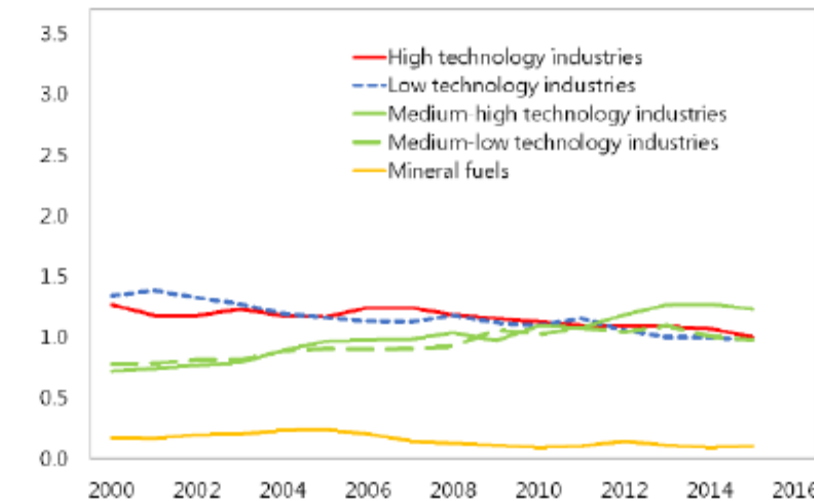
### Malaysia



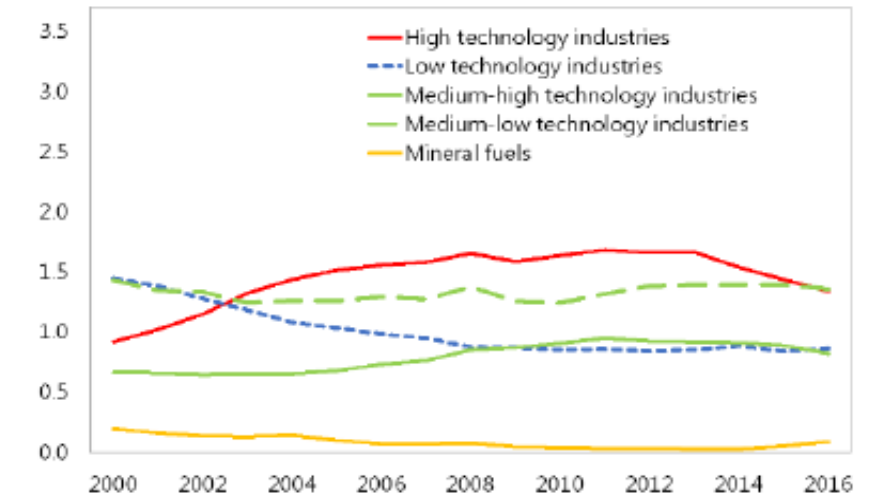
### Philippines



### Thailand



### China

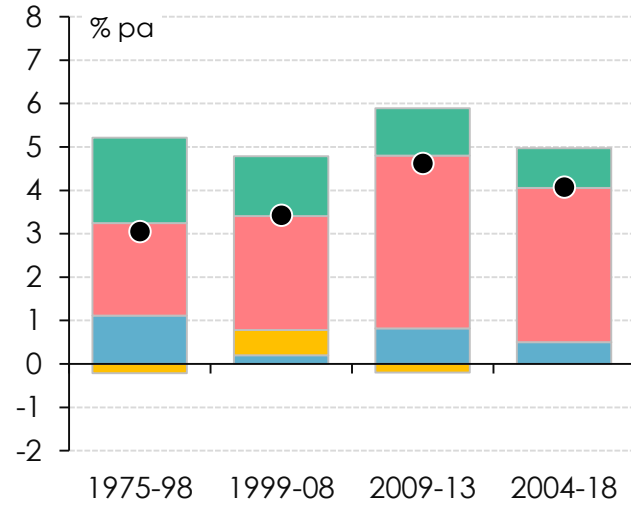


Note: 'Revealed competitive advantage' is the ratio of the share of a country's group of products in a country's exports to the share of the same group of products in total world exports. Source: IMF, Indonesia – Selected Issues, Country Report No 18/33, February 2018.

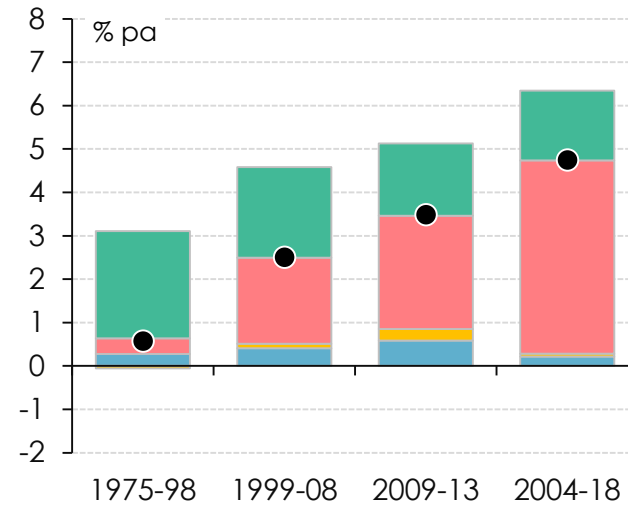
# Philippines and Vietnam are doing best on the long-term drivers of economic growth

## Drivers of GDP growth, 1975-2018

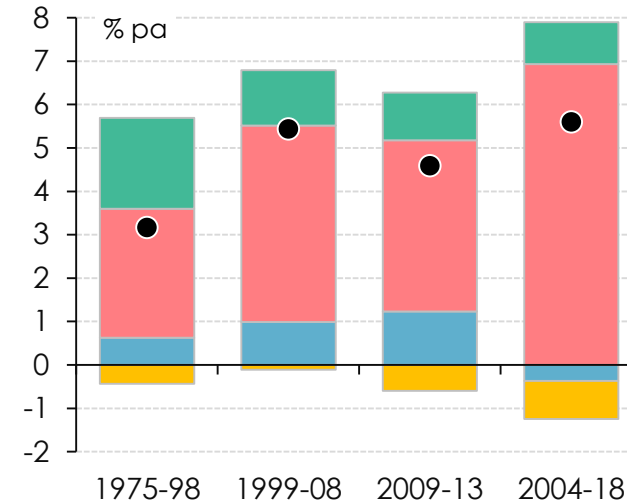
### Indonesia



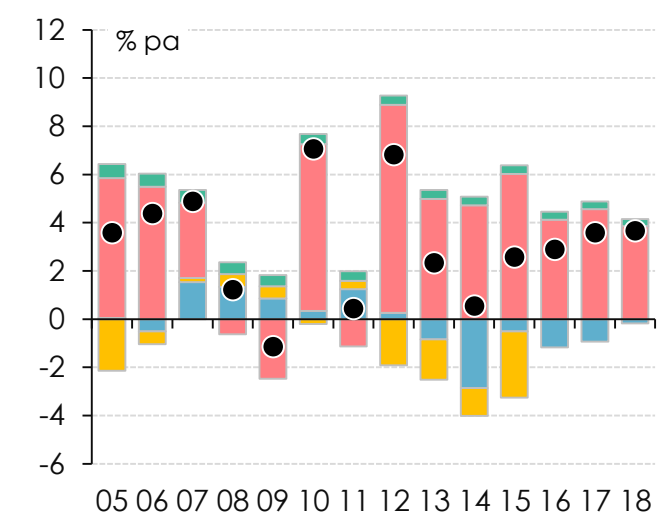
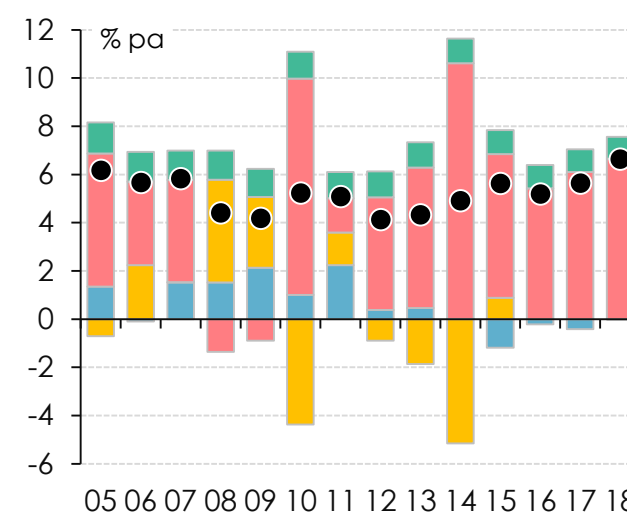
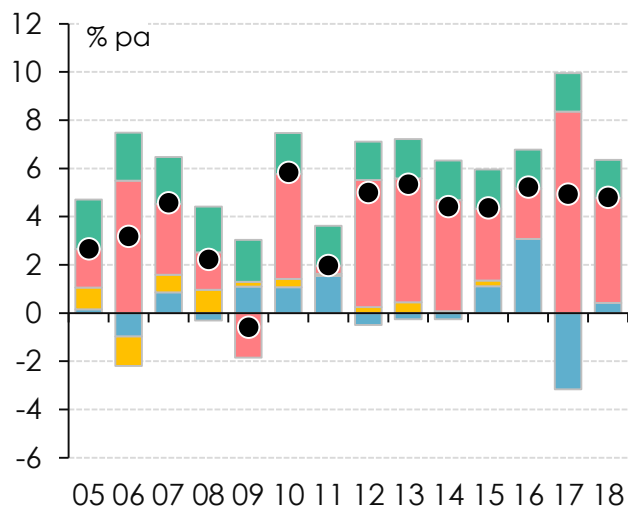
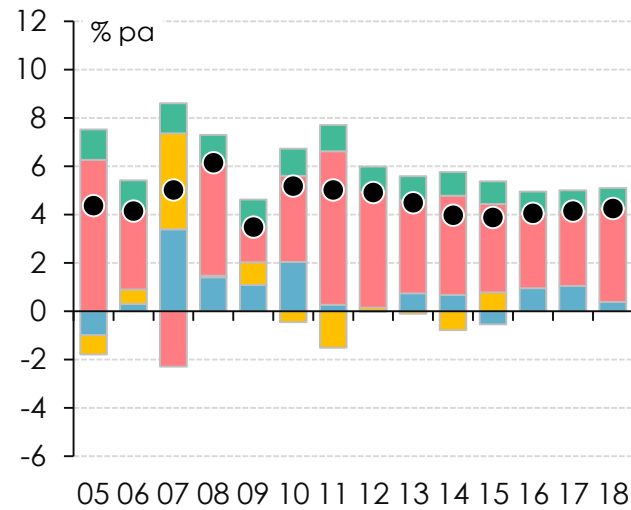
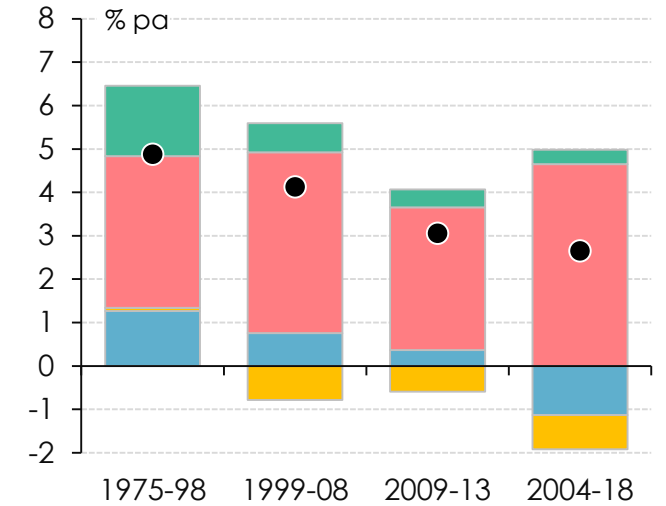
### Philippines



### Vietnam



### Thailand

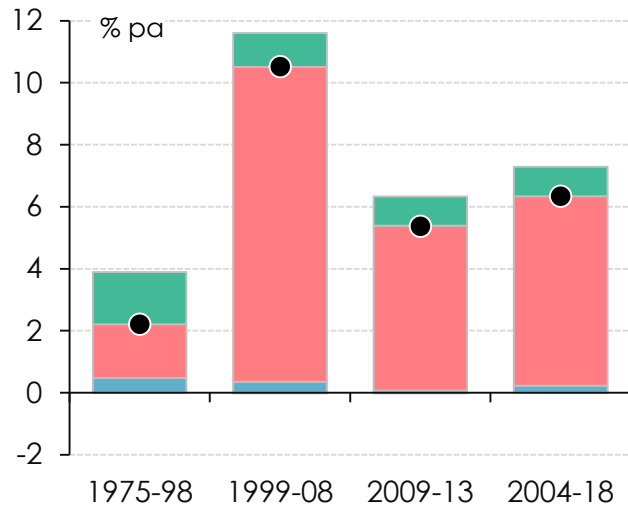


■ Employment-population ratio 
 ■ Average hours worked 
 ■ Labour productivity 
 ■ Population 
 ● Per capita GDP

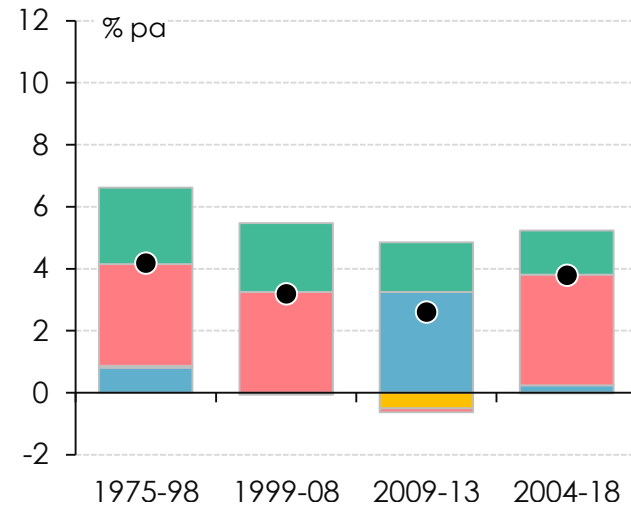
# Lower-income countries have considerable 'catch-up' potential if they can raise employment participation and productivity

## Drivers of GDP growth, 1975-2018

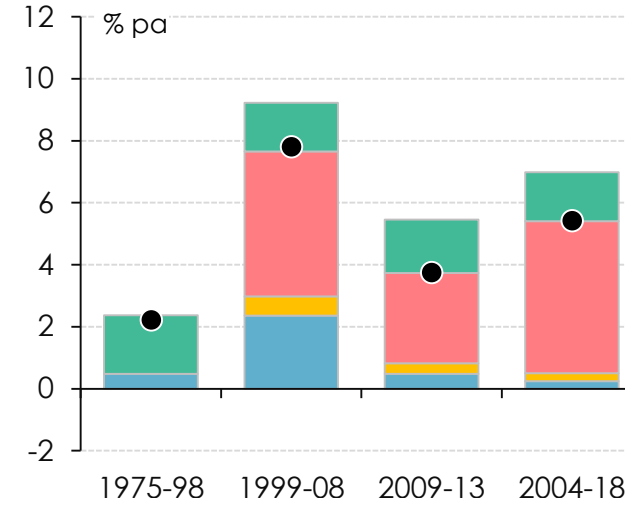
### Myanmar



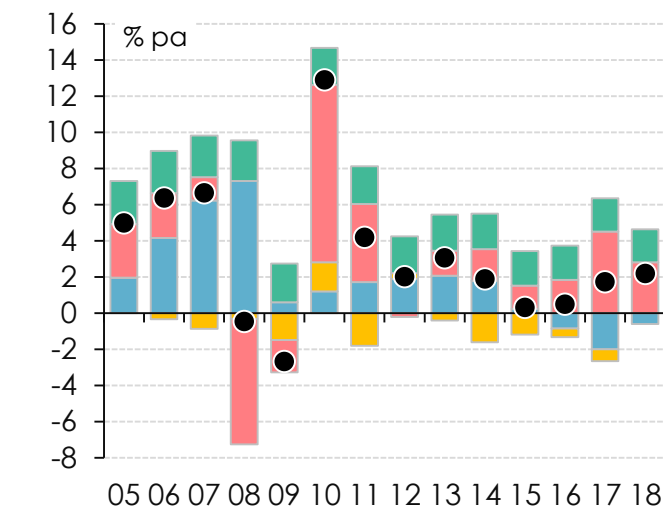
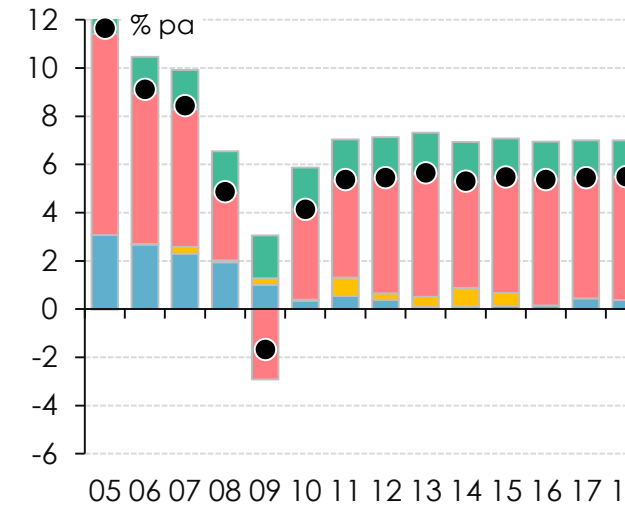
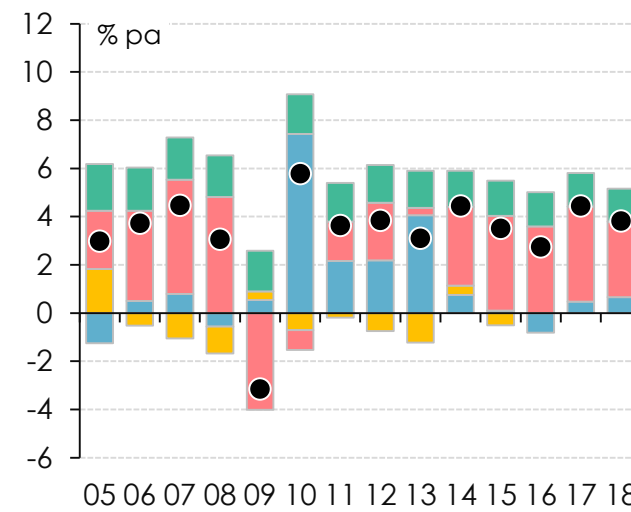
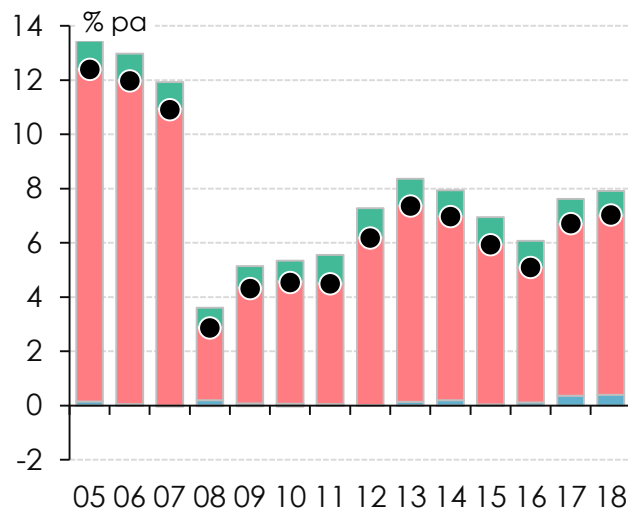
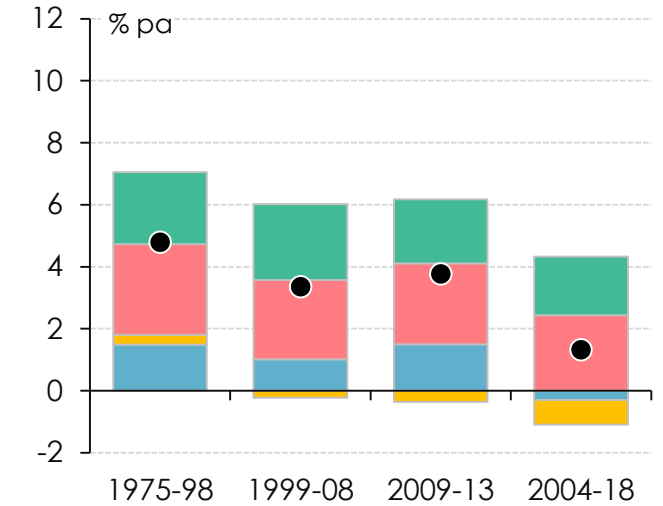
### Malaysia



### Cambodia



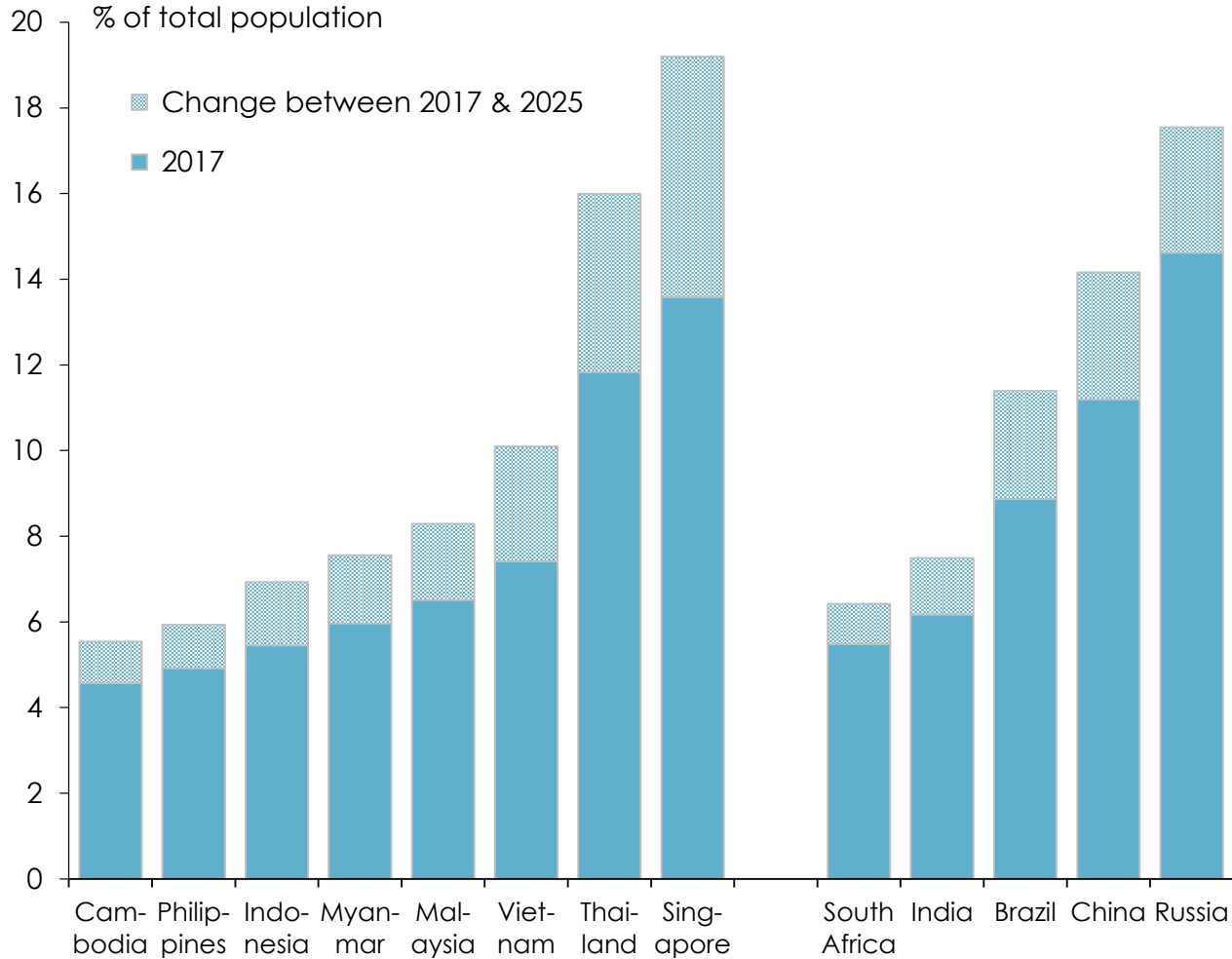
### Singapore



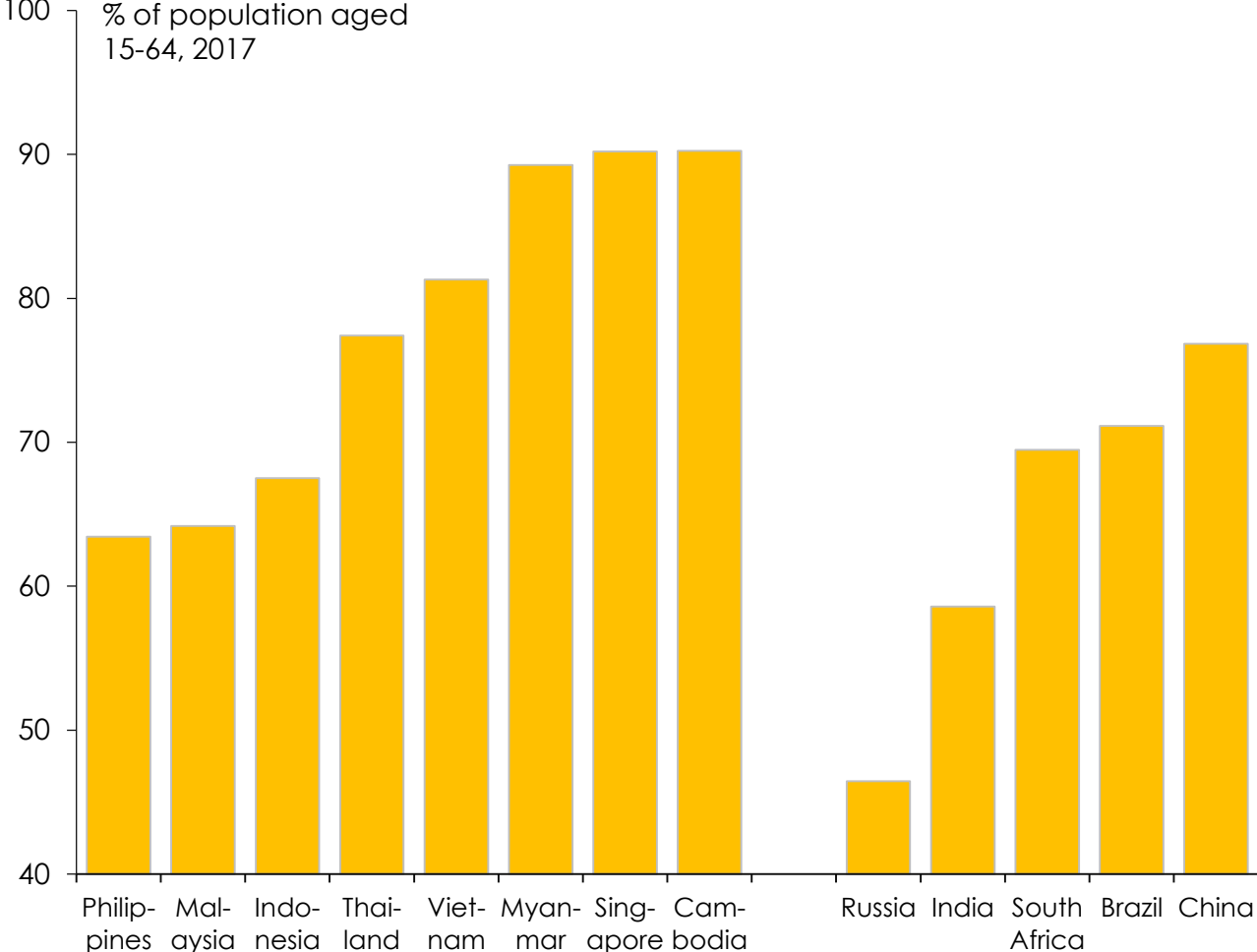
■ Employment-population ratio 
 ■ Average hours worked 
 ■ Labour productivity 
 ■ Population 
 ● Per capita GDP

# Singapore and Thailand are especially challenged by demography – but most other countries have scope to boost employment participation

Proportion of population aged 65 and over, 2017 and 2025 (f)



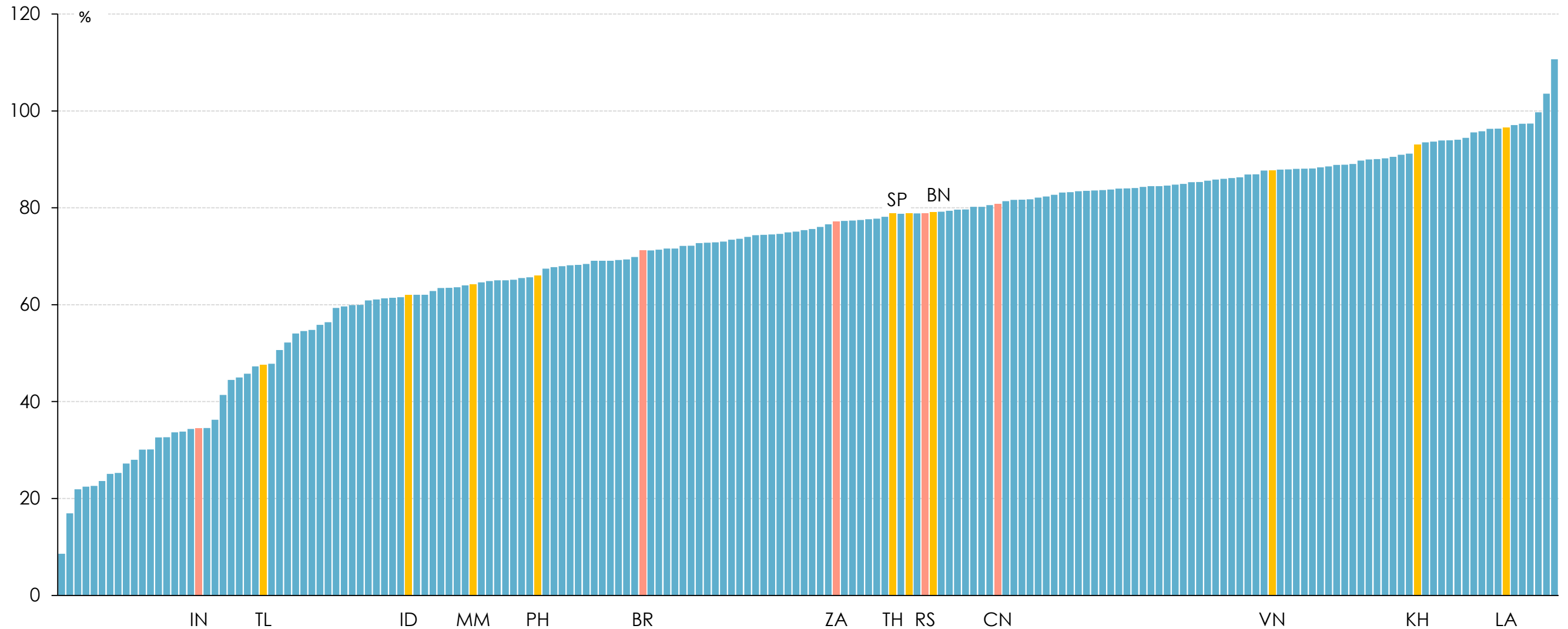
Employment as a proportion of population aged 15-64, 2017



Sources: United Nations Department of Economic and Social Affairs Population Division, *World Population Prospects 2017*; The Conference Board, *Total Economy Database*, May 2018.

# One way for many South East Asian countries to lift their employment participation rates would be to remove barriers to women's employment

## Female labour force participation rate as a pc of male rate, 2017

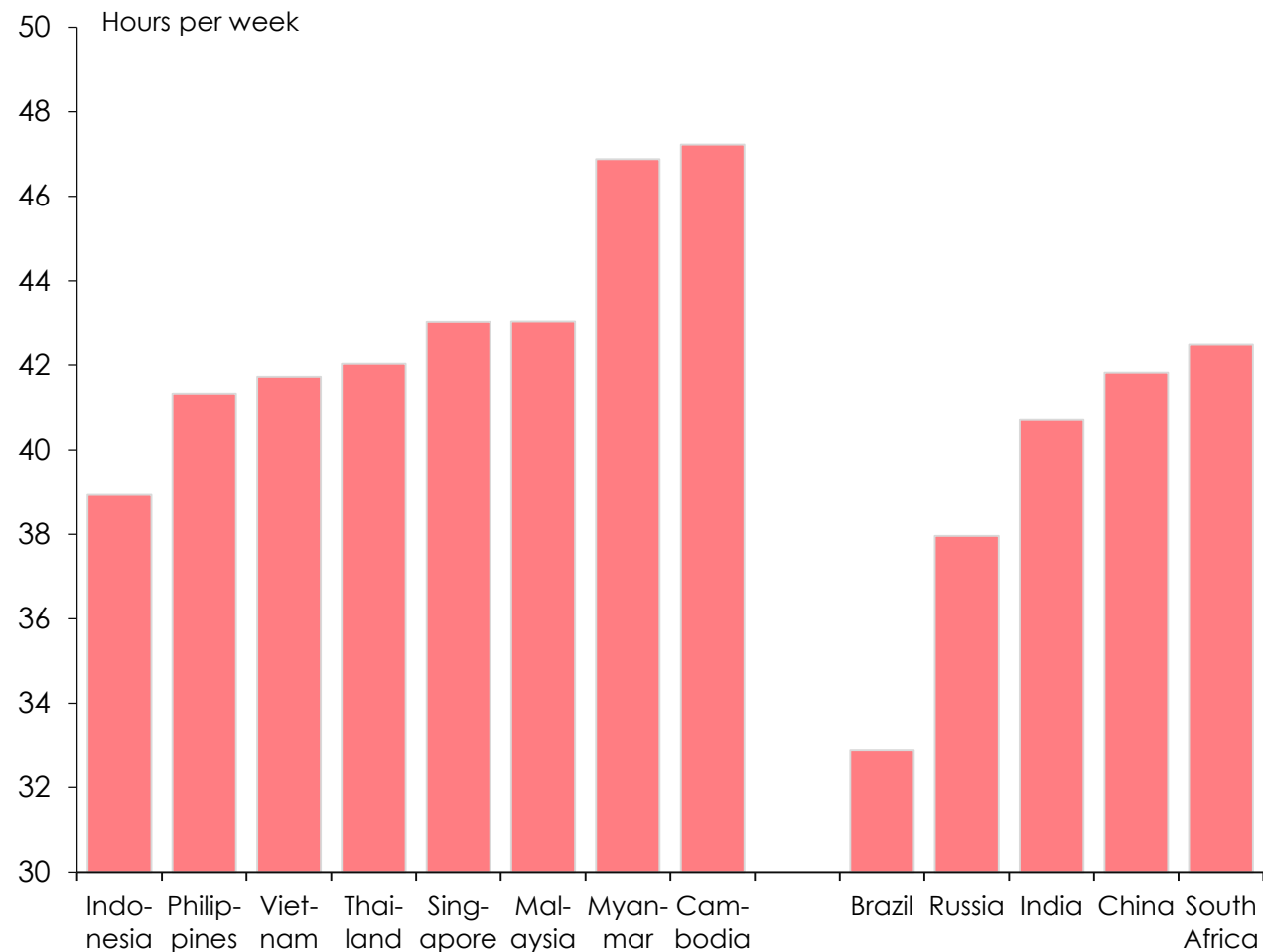


Source: The World Bank and International Labour Organization.

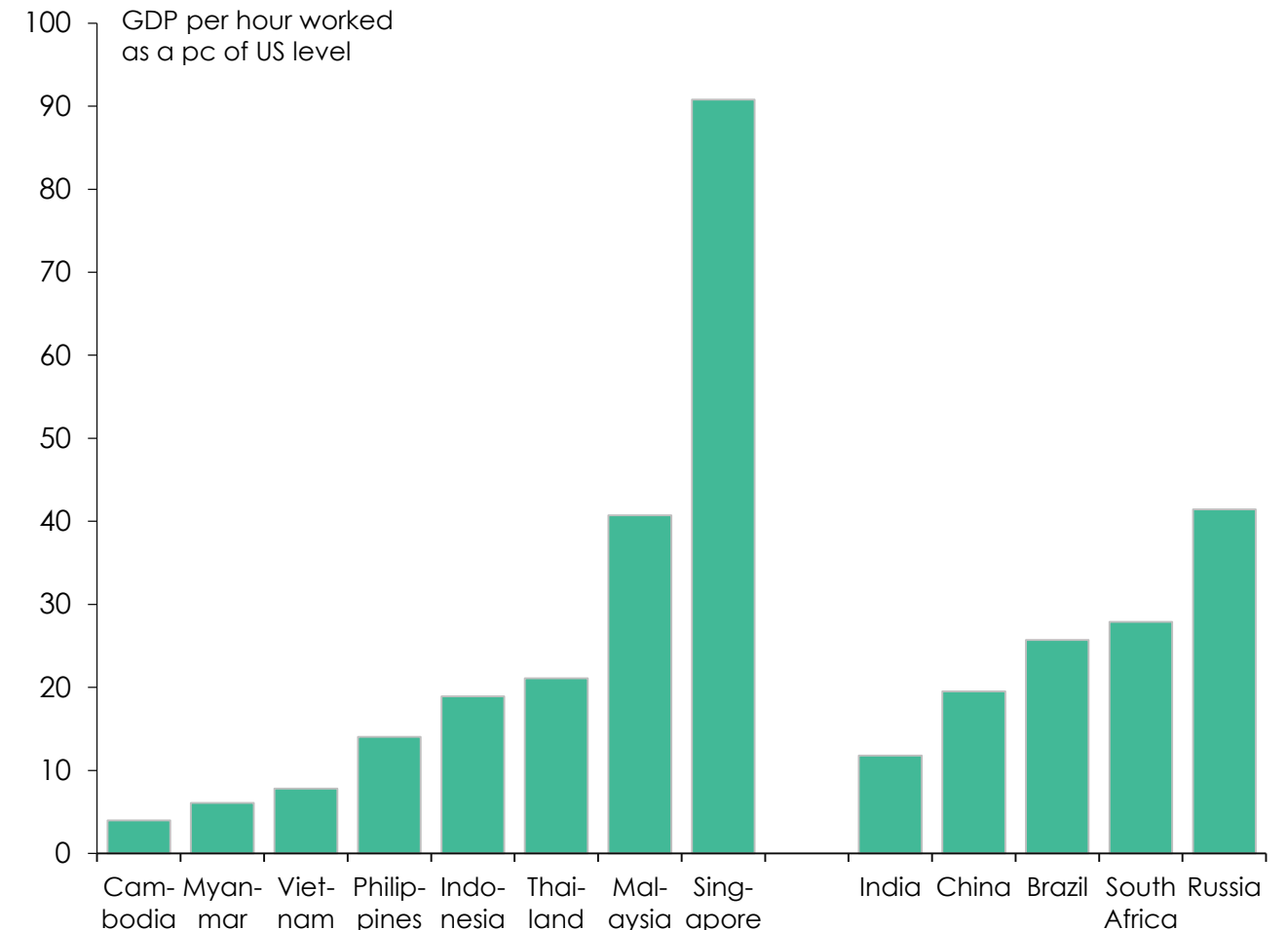


# Most South East Asian workers work relatively long hours – but there is considerable scope for lifting productivity (except in Singapore)

## Average weekly hours worked, 2017



## Labour productivity as a pc of US level, 2017



Source: The Conference Board, Total Economy Database, May 2018.

# Most South East Asian countries are in the second quartile of international competitiveness rankings, except for Singapore, and Cambodia & Laos

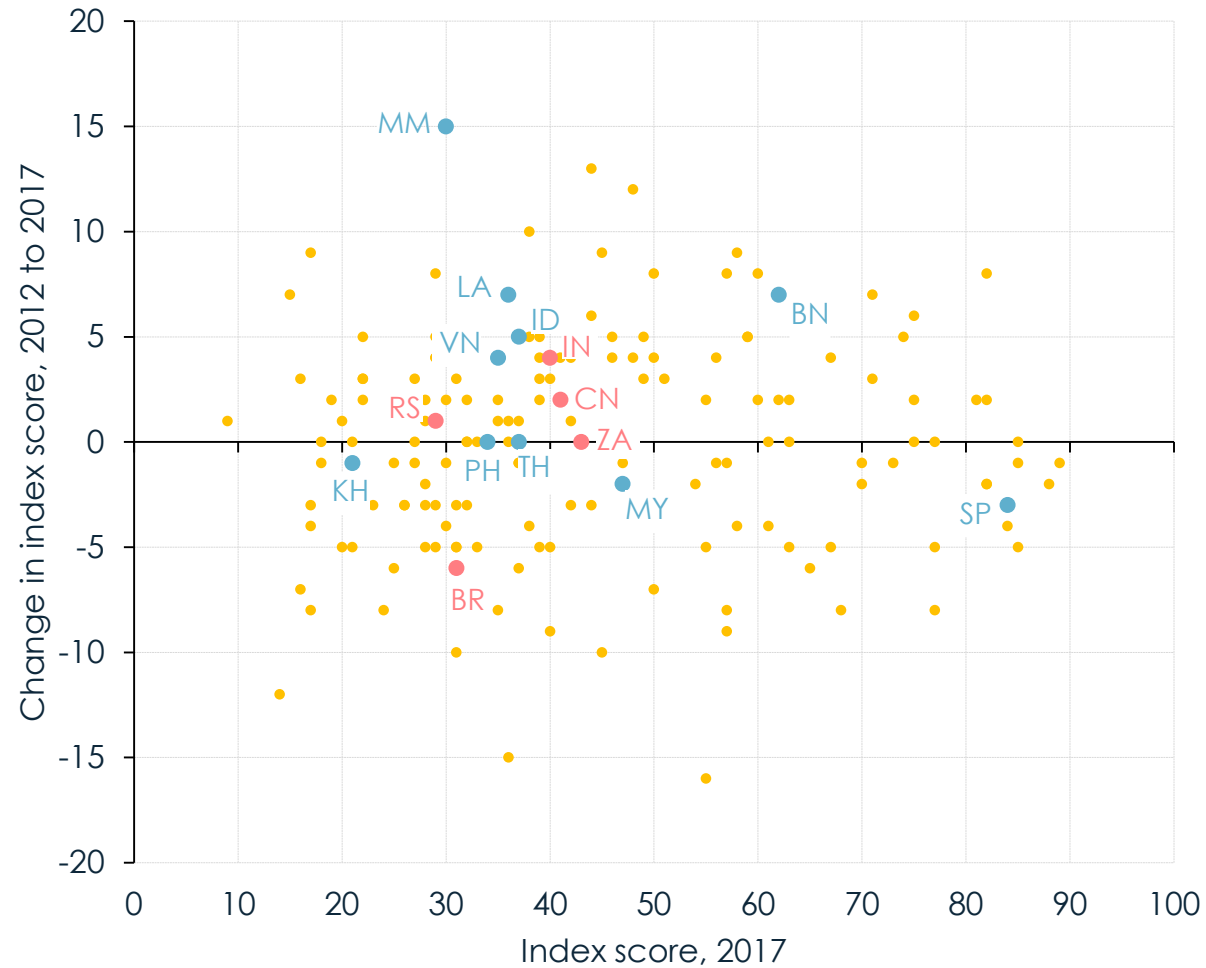
## World Economic Forum Global Competitiveness Rankings 2017

	South East Asia									Other Asian economies					BRICs					
	Indo-nesia	Philip-pines	Viet-nam	Thai-land	Mal-aysia	Cam-bodia	Laos	Singa-pore	Brunei	Japan	Korea	Tai-wan	Hong Kong	Aus-tralia	New Zealand	China	India	Brazil	Russia	South Africa
'Competitiveness Pillars' -																				
Institutions	47	94	79	78	27	106	62	2	40	17	58	30	9	18	3	41	39	109	83	76
Infrastructure	52	97	79	43	22	106	102	2	60	4	8	15	1	28	23	46	66	73	35	61
Macro environment	26	22	77	9	34	70	114	18	45	93	2	5	6	27	16	17	80	124	53	82
Health & primary education	94	82	67	90	30	101	103	3	31	7	28	15	26	12	6	40	91	96	54	121
Higher education & training	64	55	84	57	45	124	105	1	67	23	25	17	14	9	7	47	75	79	32	85
Goods market efficiency	43	103	91	33	20	85	76	1	67	13	24	12	2	28	9	46	56	122	80	54
Labour market efficiency	96	84	57	65	26	48	36	2	47	22	73	25	4	28	5	38	75	114	60	93
Financial market development	37	52	71	40	16	61	75	3	87	20	74	19	5	6	1	48	42	92	107	44
Technological readiness	80	83	79	61	46	97	110	14	60	15	29	25	9	27	13	73	107	55	57	54
Market size	9	27	31	18	24	84	101	35	110	4	13	20	33	22	64	1	3	10	6	30
Business sophistication	32	58	100	42	20	106	89	18	92	3	26	21	11	28	24	33	39	56	71	37
Innovation	31	65	71	50	22	110	81	9	80	8	18	11	26	27	20	28	29	85	49	39
<b>Global Competitiveness Index</b>	<b>36</b>	<b>56</b>	<b>55</b>	<b>32</b>	<b>23</b>	<b>94</b>	<b>98</b>	<b>3</b>	<b>46</b>	<b>9</b>	<b>26</b>	<b>15</b>	<b>6</b>	<b>21</b>	<b>13</b>	<b>27</b>	<b>40</b>	<b>80</b>	<b>38</b>	<b>61</b>

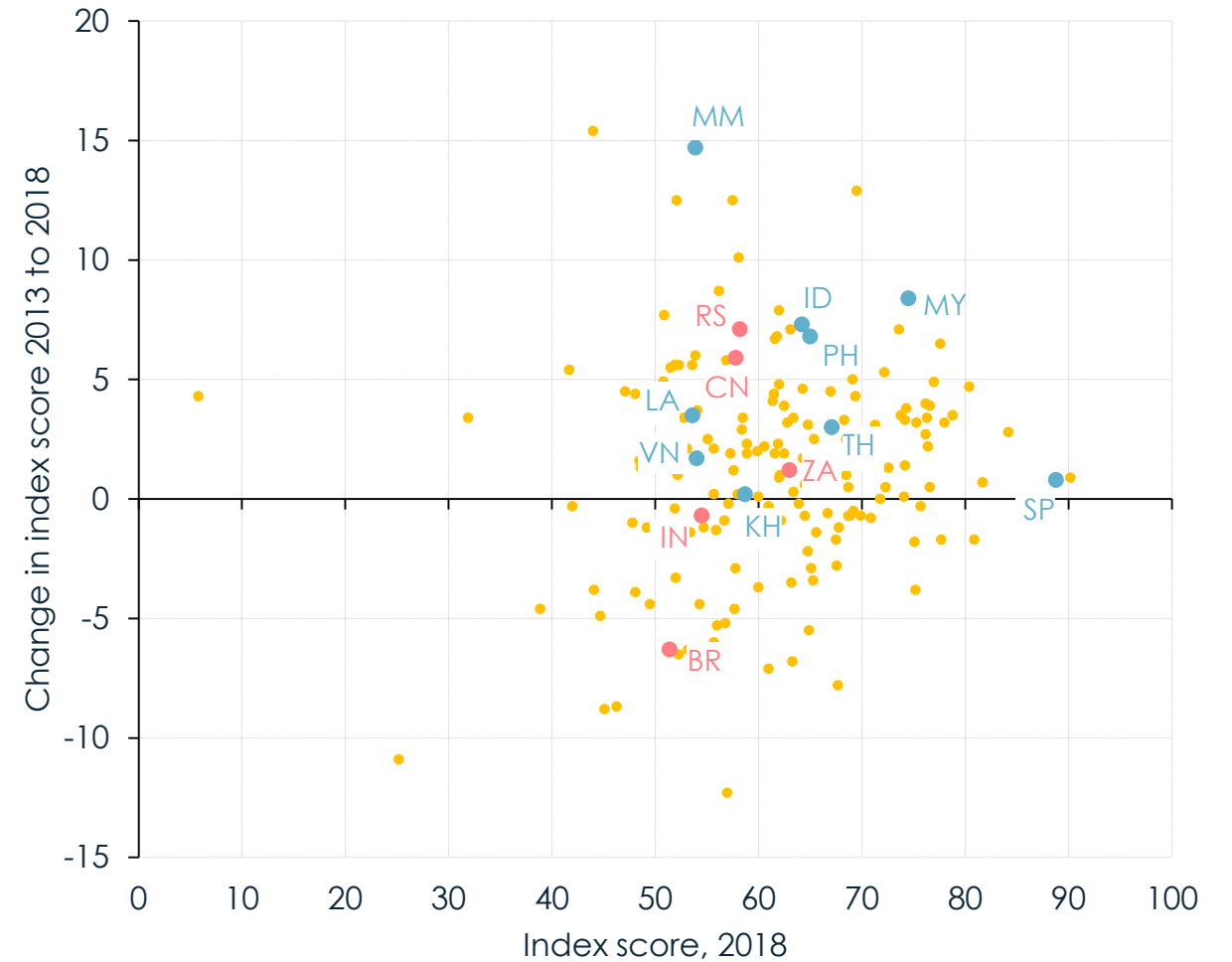
Note: the rankings cover 138 countries and are based on a combination of 'hard' data and subjective responses to a survey of over 14,000 'business leaders'.  
Source: World Economic Forum, *The Global Competitiveness Report 2017-18*.

# Corruption is still a problem in most South East Asian countries, though some are showing improvement – as they are on ‘economic freedom’

## Corruption perceptions index scores, 2012-2017



## ‘Economic freedom’ index scores, 2013-2018

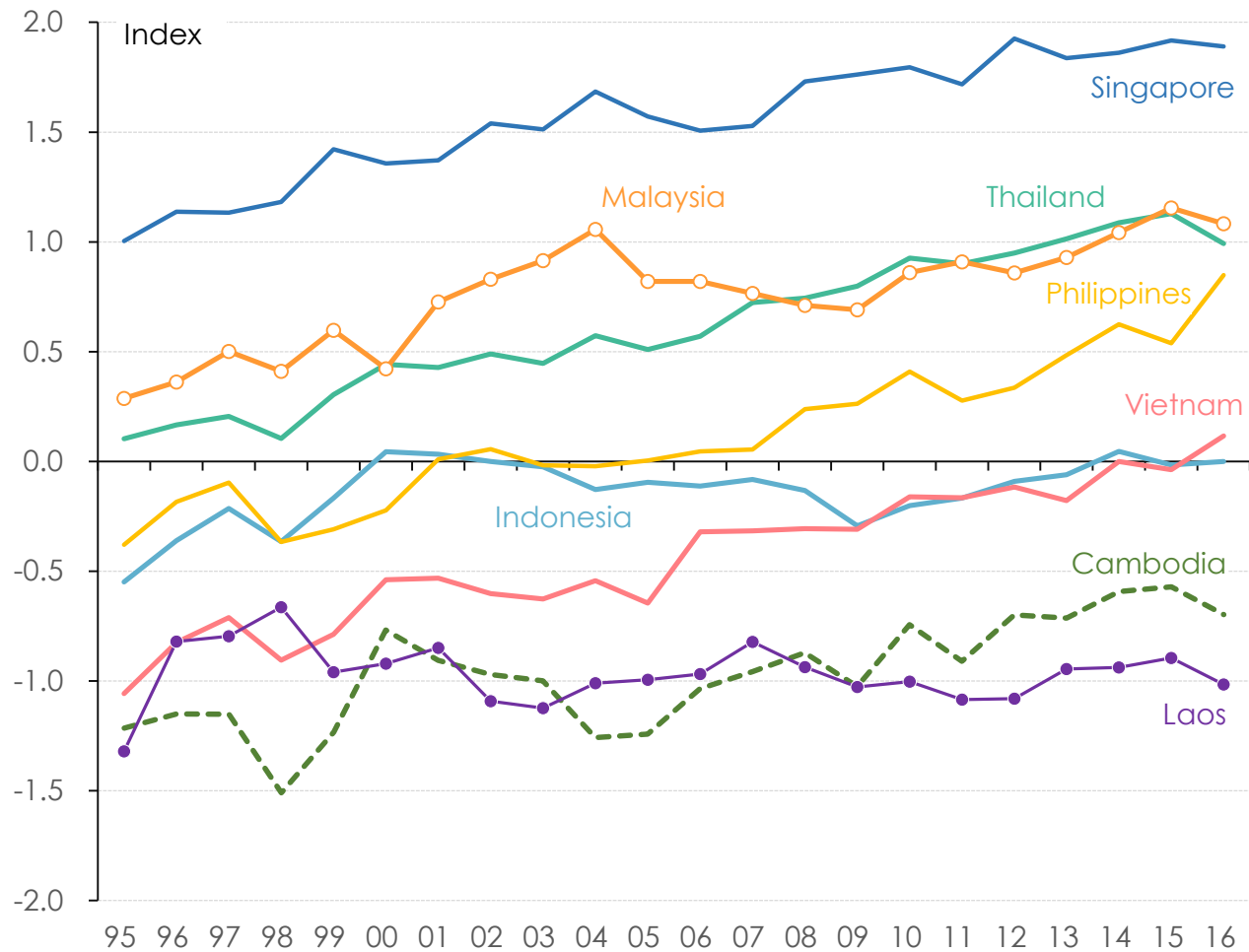


Sources: Transparency International, *Corruption Perceptions Index 2017*; The Heritage Foundation, *2018 Index of Economic Freedom*.

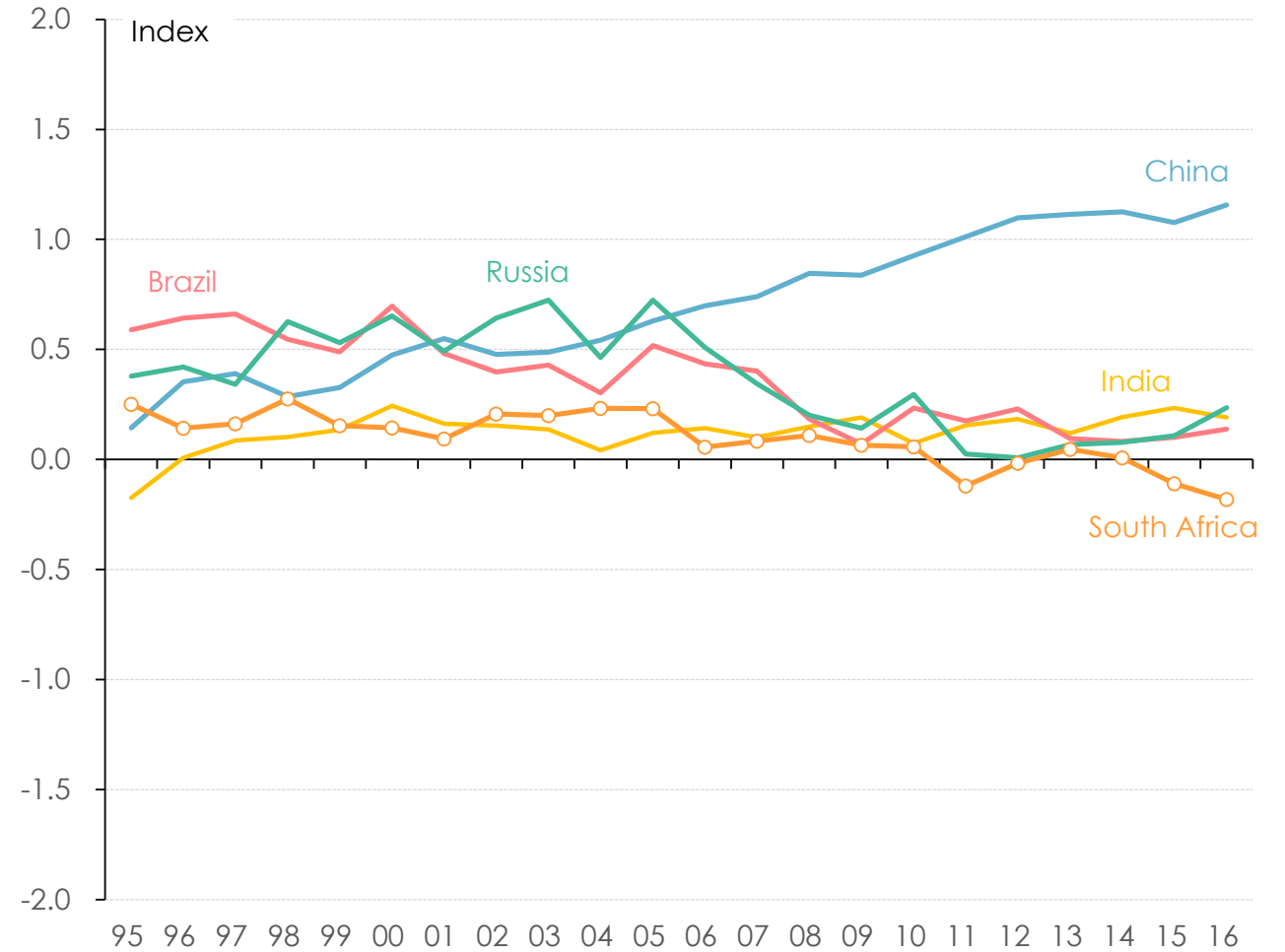
# Some South-East Asian economies have been successfully diversifying into more complex sectors – but Indonesia in particular is lagging

## Index of economic complexity, 1995-2016

### South-East Asia



### BRICS

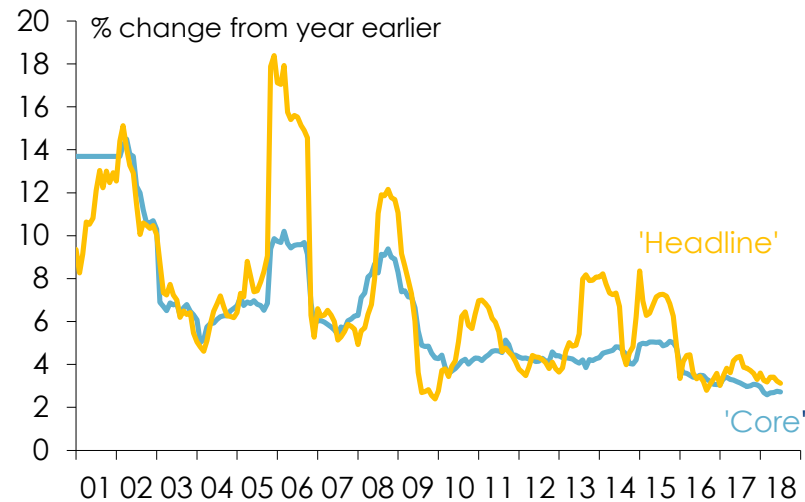


Note: The Economic Complexity Index is a measure of the diversity and sophistication of a country's exports, devised by Cesar Hidalgo and Ricardo Hausman, *The Building Blocks of Economic Complexity* (2009). Source: Harvard University, Centre for International Development, *Atlas of Economic Complexity*.

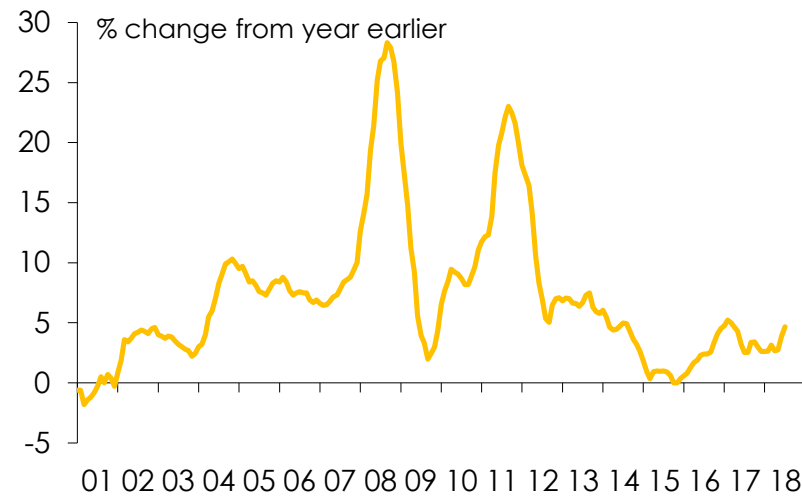
# 'Core' inflation remains low except in the Philippines; 'headline' inflation susceptible to rising energy prices

## Headline and 'core' inflation, 2001-2018

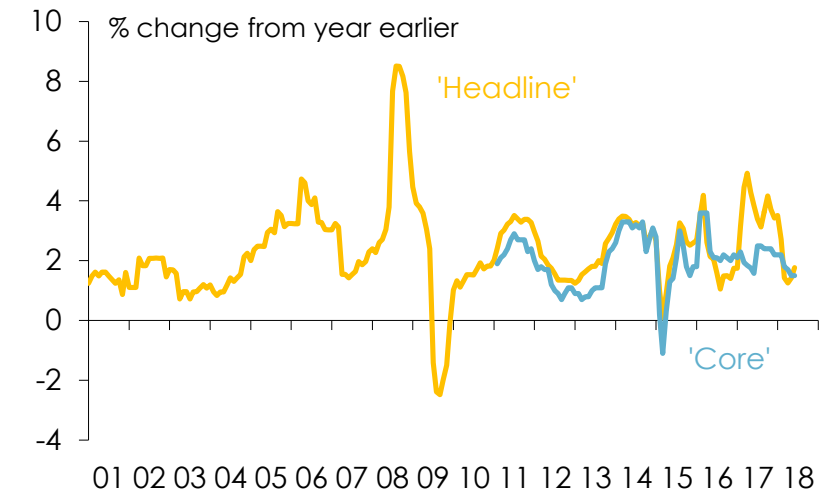
### Indonesia



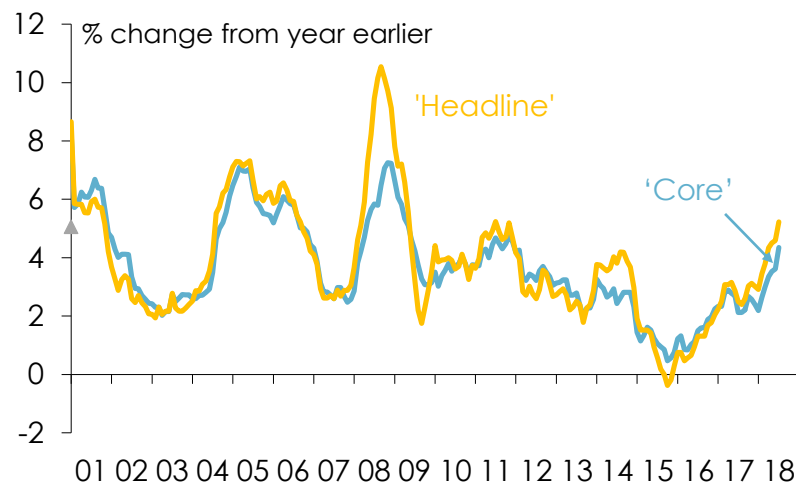
### Vietnam



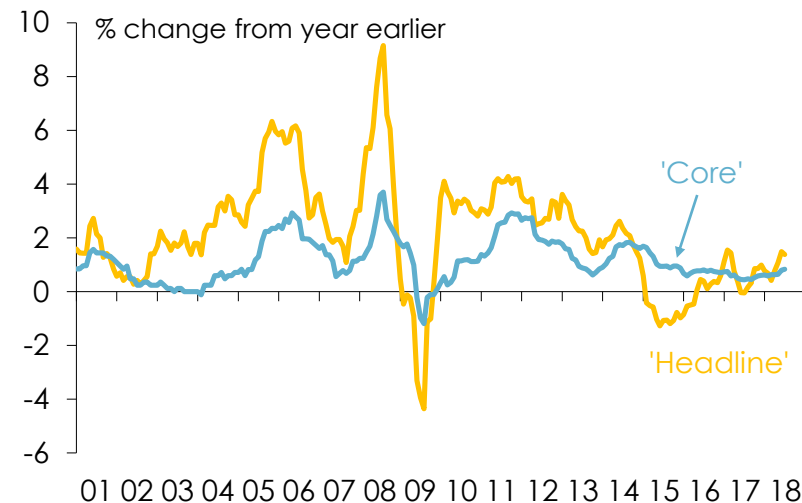
### Malaysia



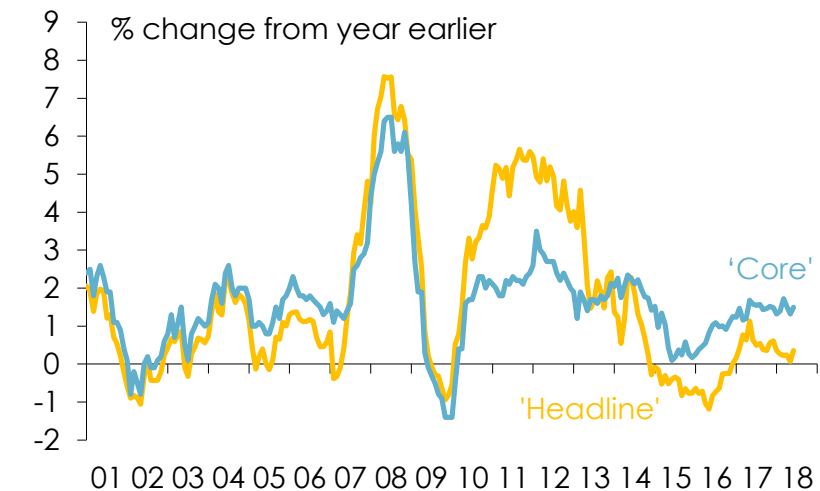
### Philippines



### Thailand



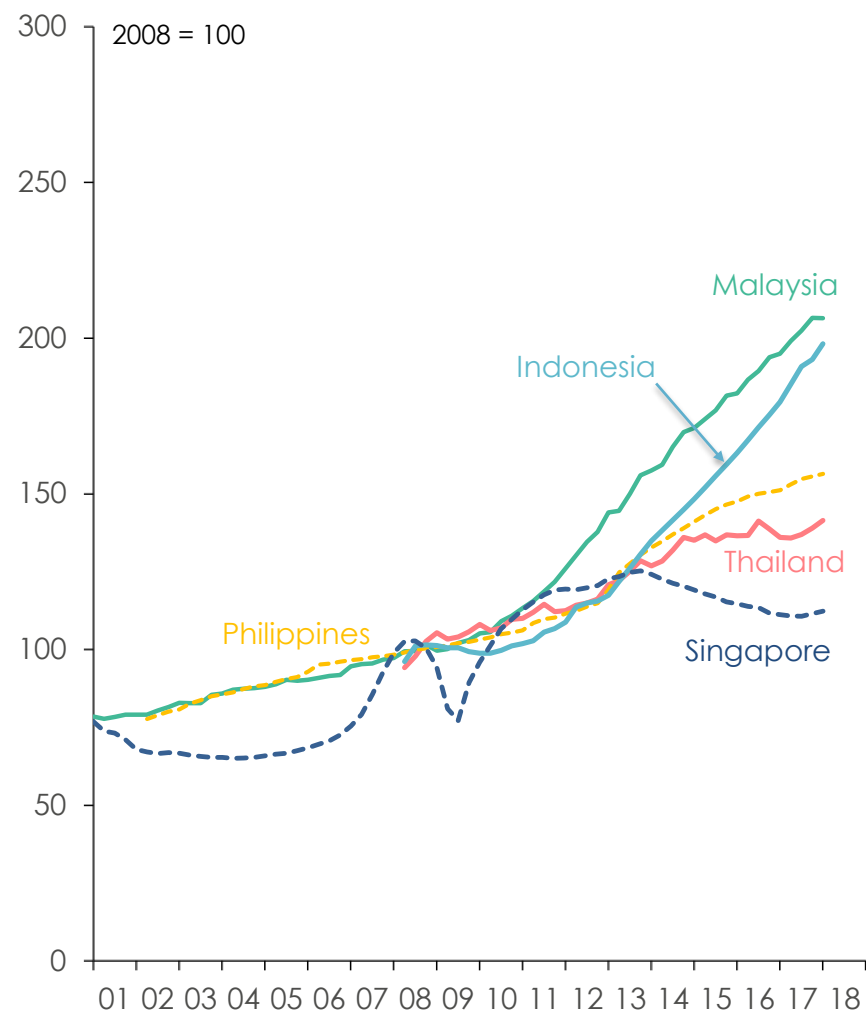
### Singapore



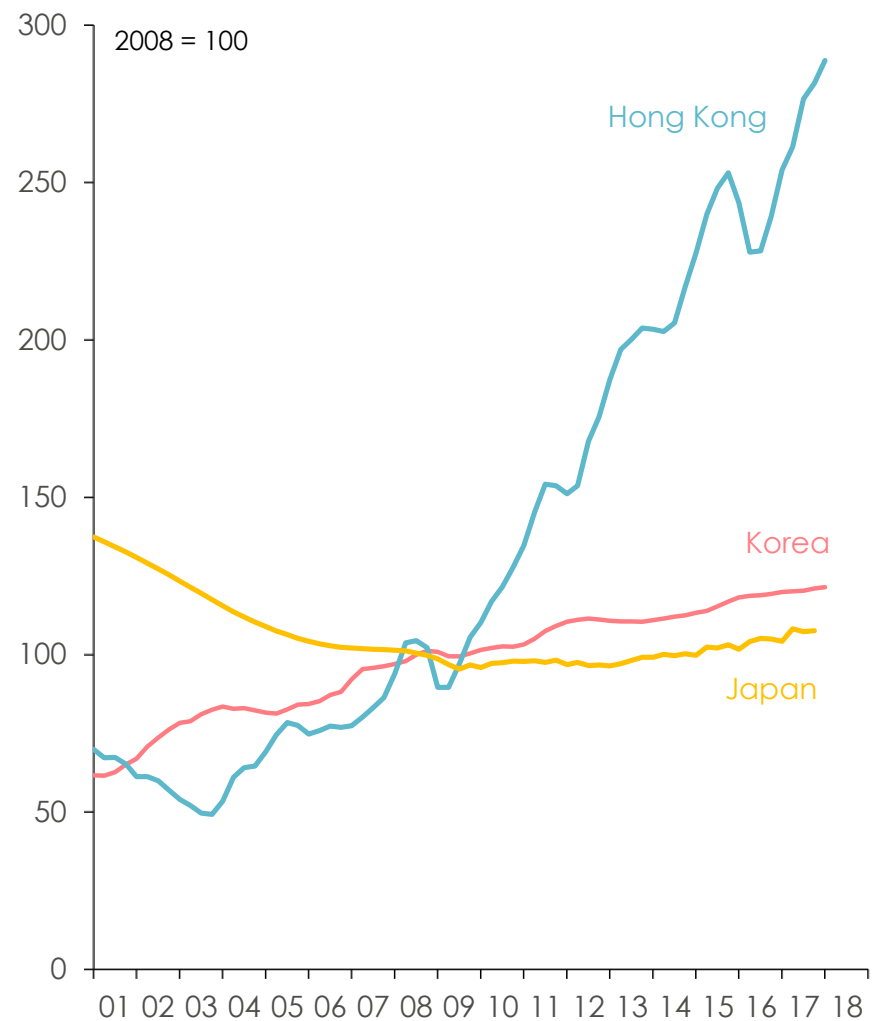
Note: 'core' inflation generally excludes food prices, but in the Philippines and Thailand also excludes energy prices, while in Malaysia also excludes non-alcoholic beverages and in Indonesia excludes 'government administered prices'. The Singapore 'core inflation' measure (compiled by MAS) excludes private road transport and accommodation, but includes food and energy. Sources: National statistical agencies and/or central banks.

# Partly thanks to 'macro-prudential' measures, property price inflation has been better contained in South East Asia than in Hong Kong

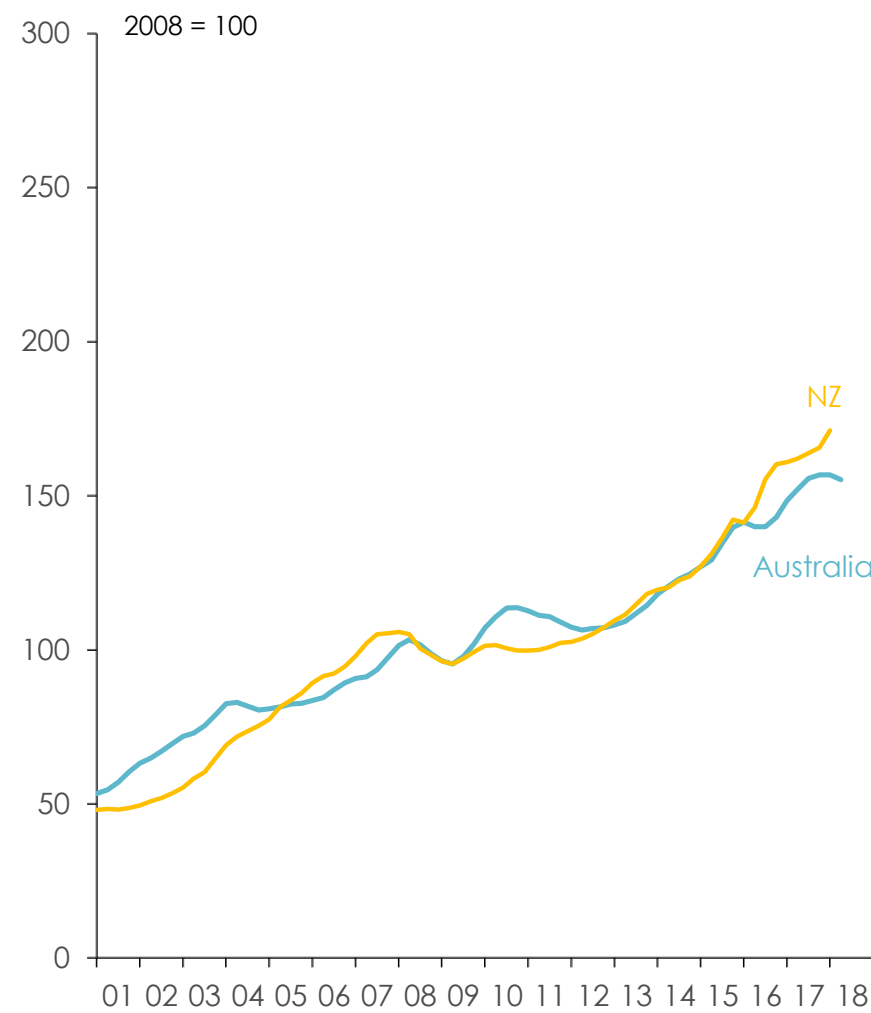
## Residential property prices South East Asia



## North East Asia



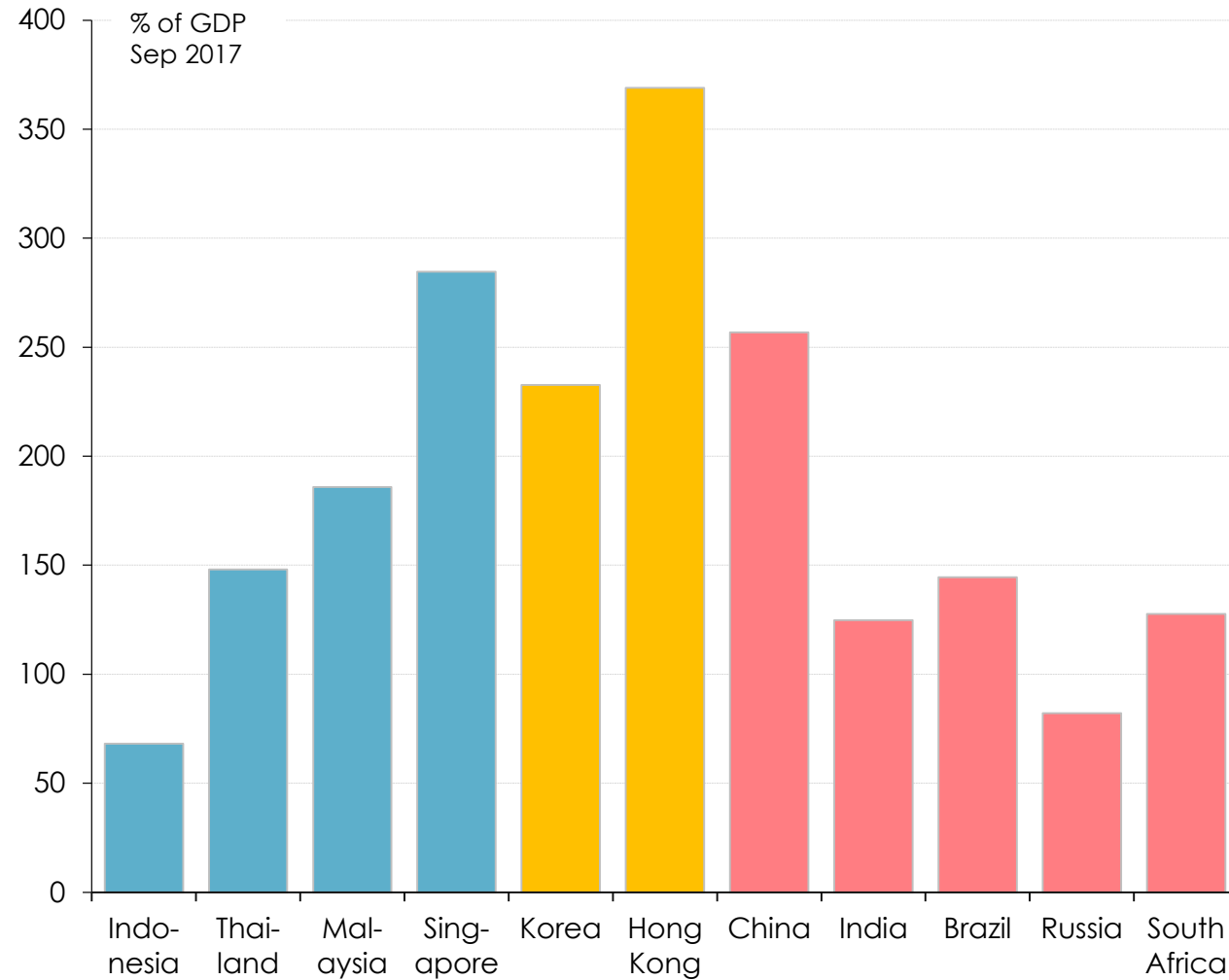
## Australia & New Zealand



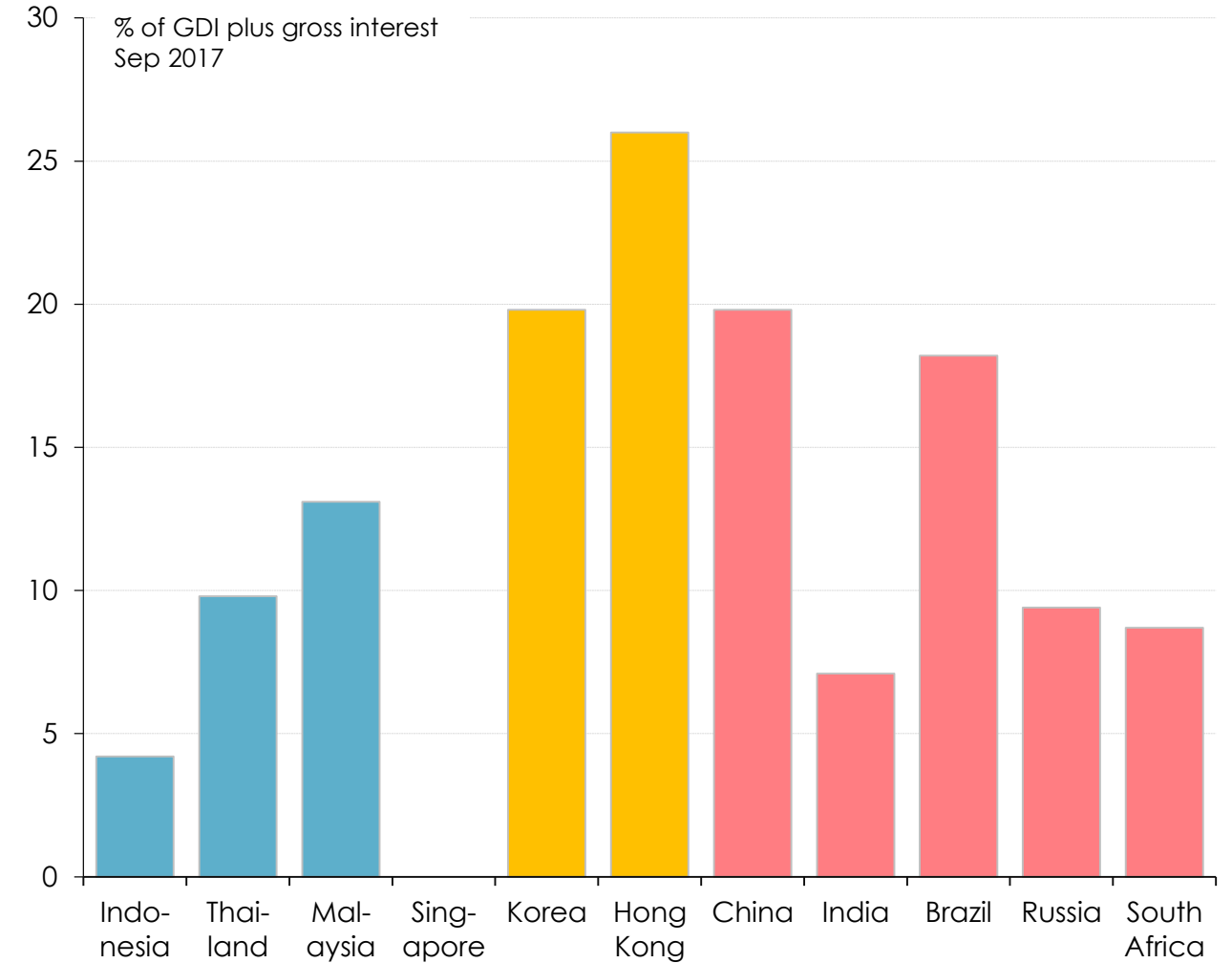
Sources: Bank for International Settlements; CoreLogic (Australia); Property iQ / RBNZ (New Zealand).

# Indonesia aside, South East Asian debt levels (and debt servicing obligations) are relatively high by emerging economy standards

## Credit to non-financial sectors, September 2017



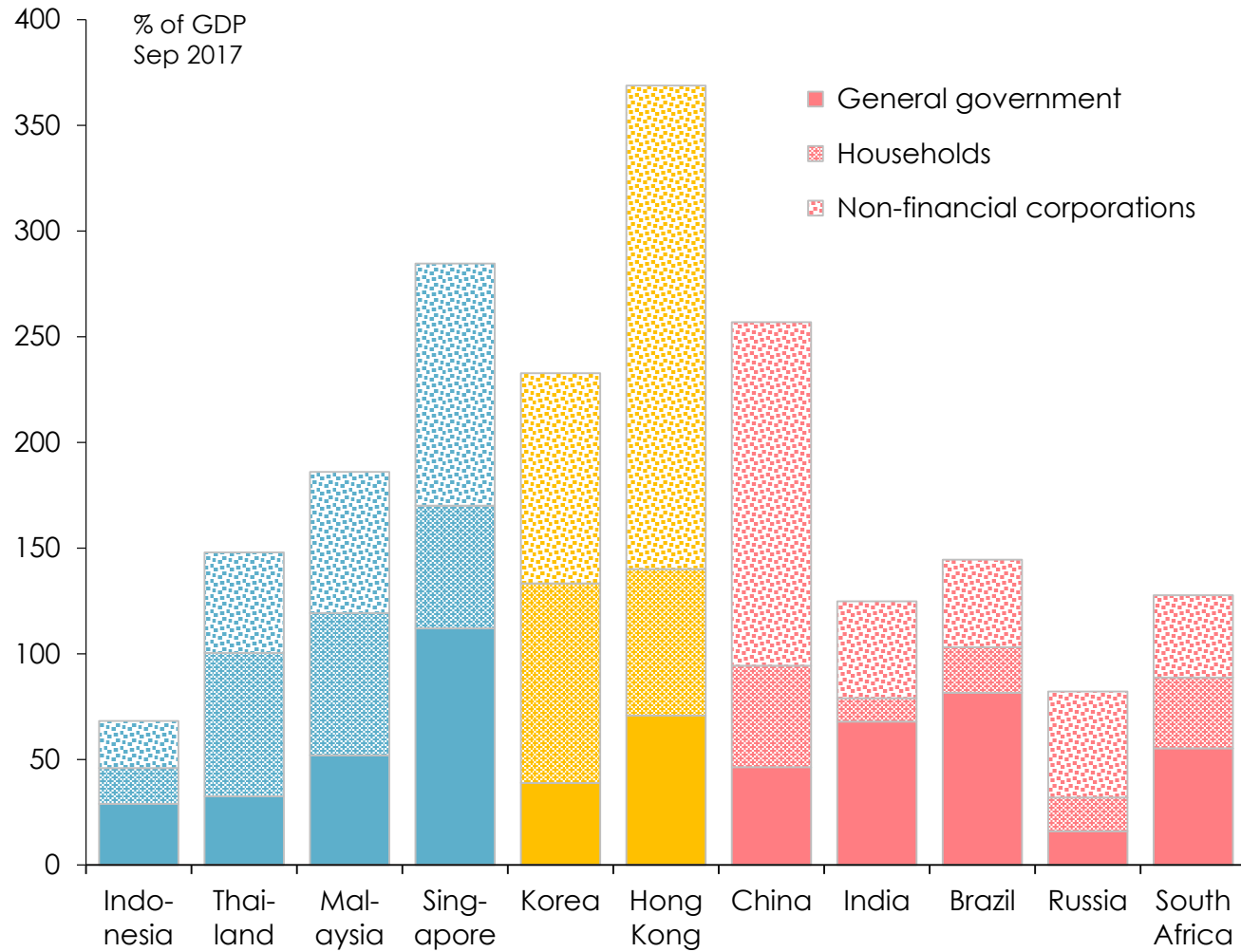
## Private non-financial sector debt service ratios, September 2017



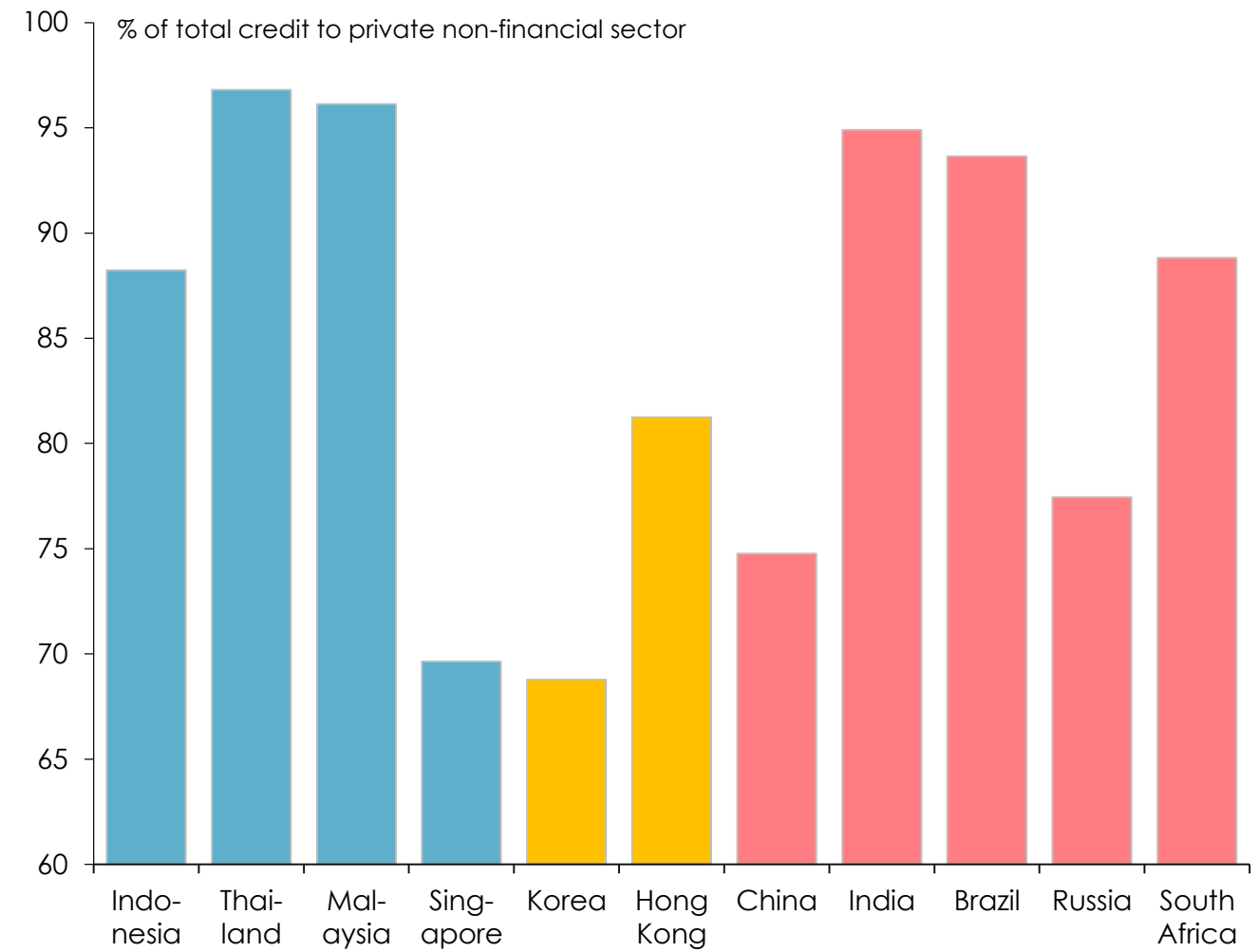
Source: Bank for International Settlements.

# South East Asia private sector debt is high relative to other EMs (Indonesia aside) – and banks provide nearly all of it

## Credit to non-financial sectors, by sector September 2017



## Banks' share of total credit to private non-financial sectors, September 2017



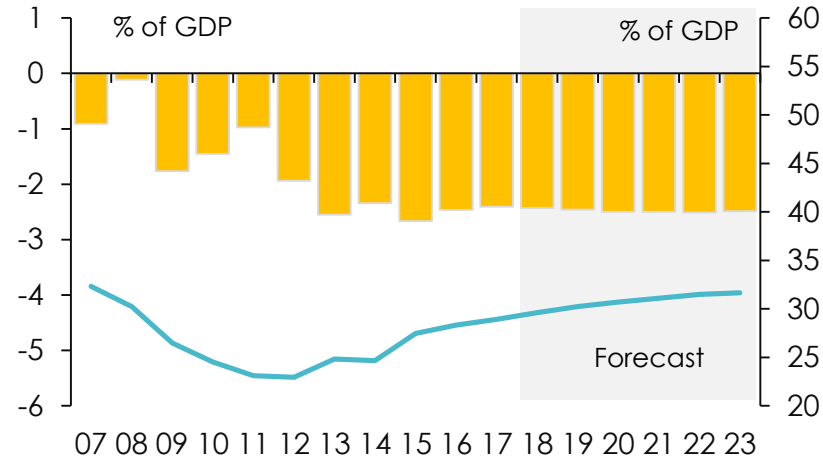
Source: Bank for International Settlements.



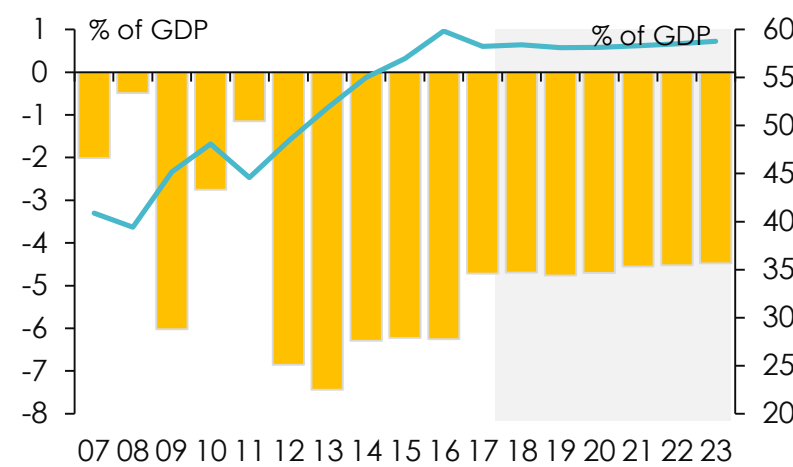
# Most South East Asian government are running budget deficits but debt positions are either stable or improving and fiscal policy is neutral

## General government cyclically-adjusted balance and gross debt, 2008-2023

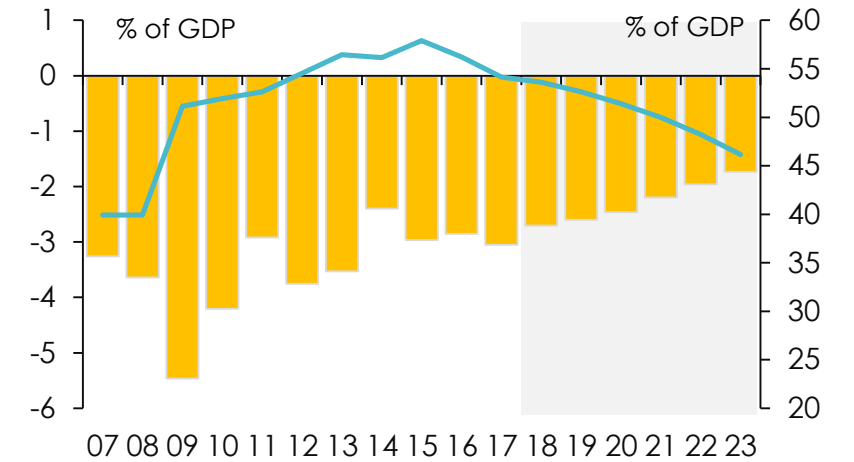
### Indonesia



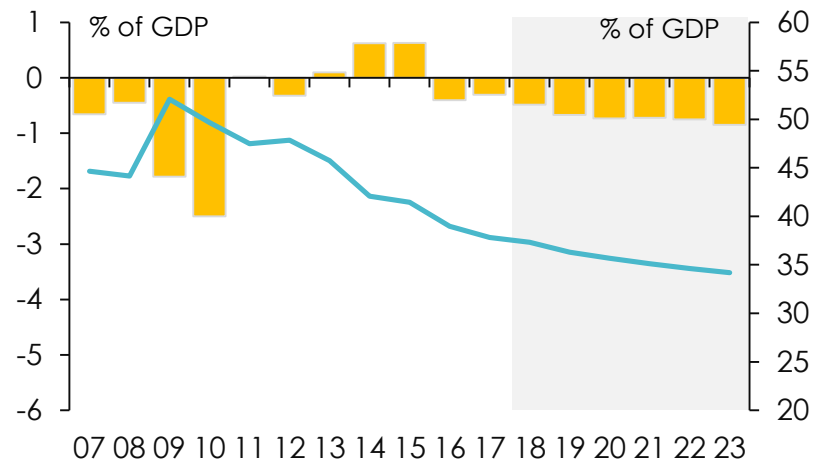
### Vietnam



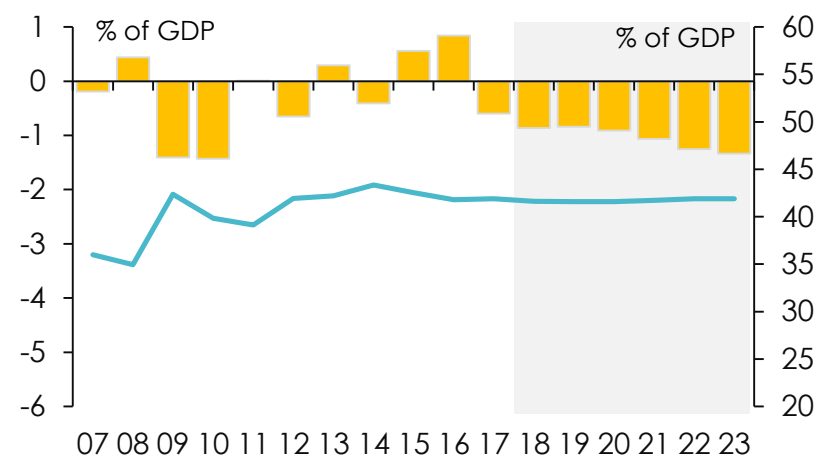
### Malaysia



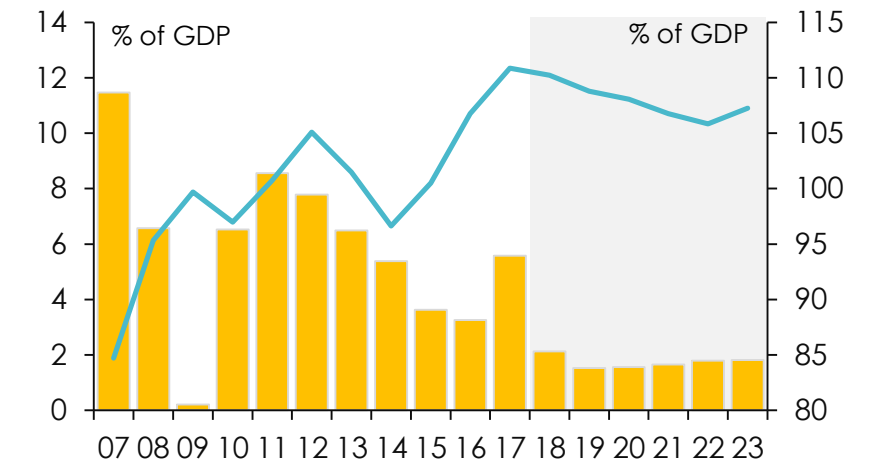
### Philippines



### Thailand



### Singapore

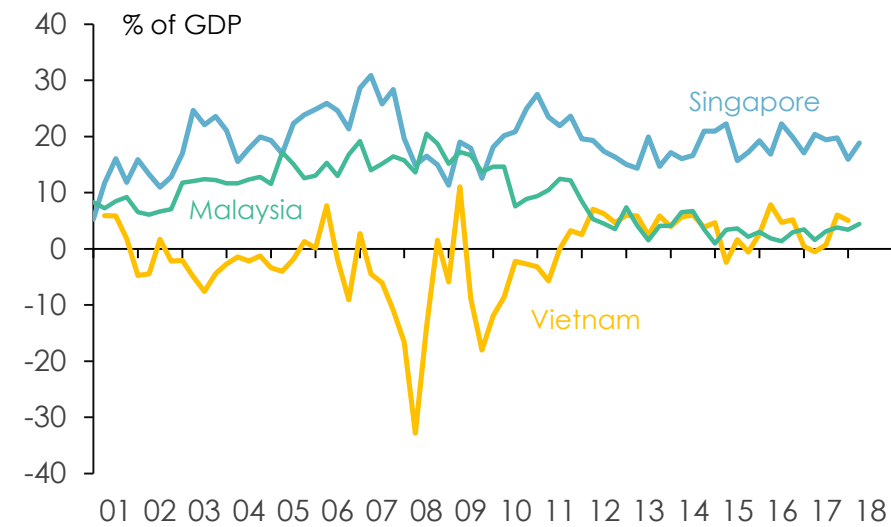
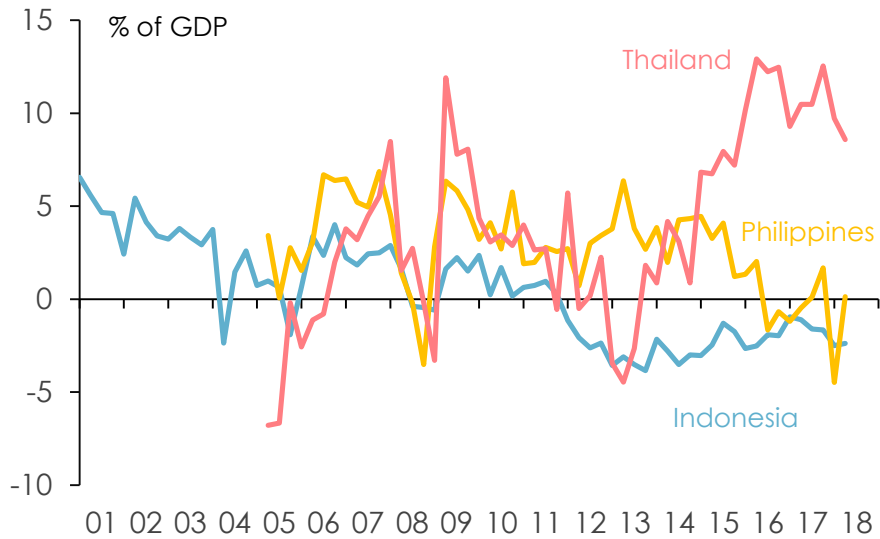


■ Cyclically adjusted primary balance (left scale)
 — Gross debt (right scale)

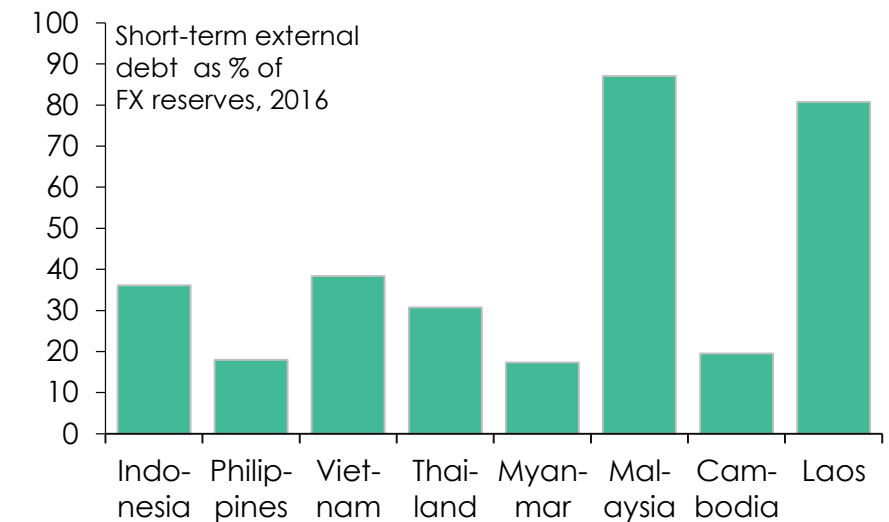
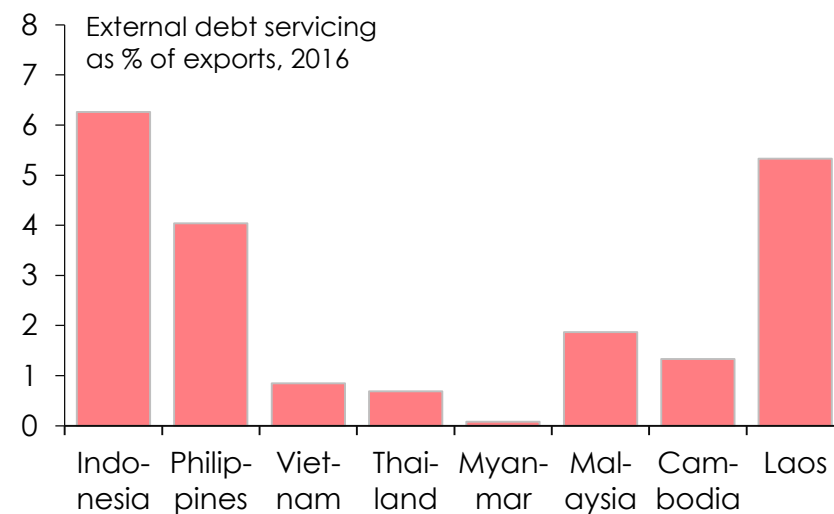
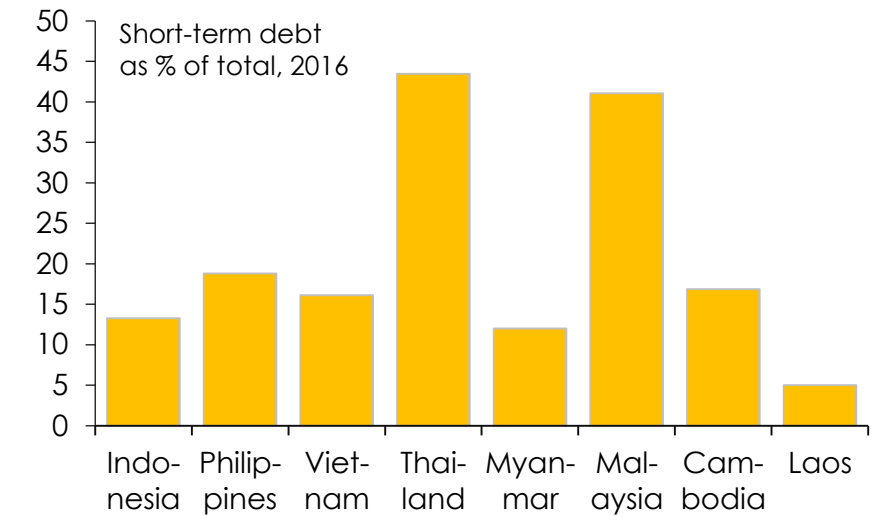
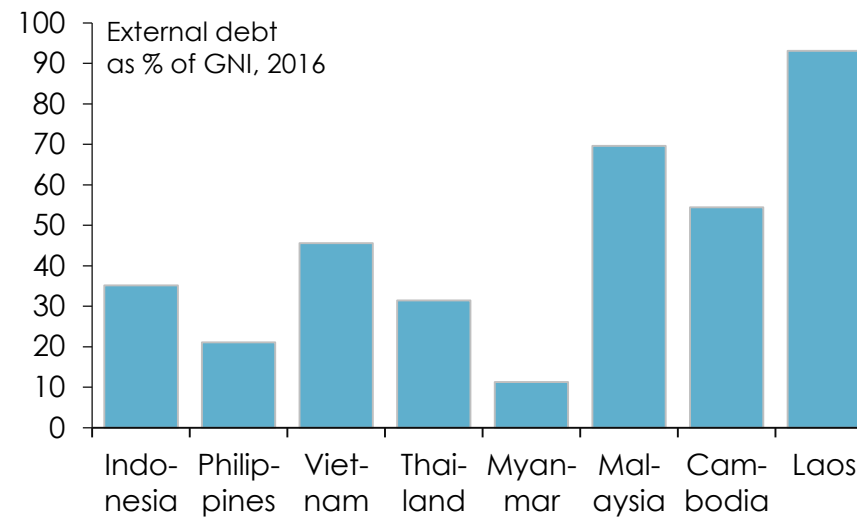
Note: Vietnam general government balance is not cyclically adjusted. Source: IMF, Fiscal Monitor (April 2018).

# Indonesia and Philippines' external finances make them more vulnerable to global financial shocks – some risks also for Malaysia

## Current account balances



## External debt indicators

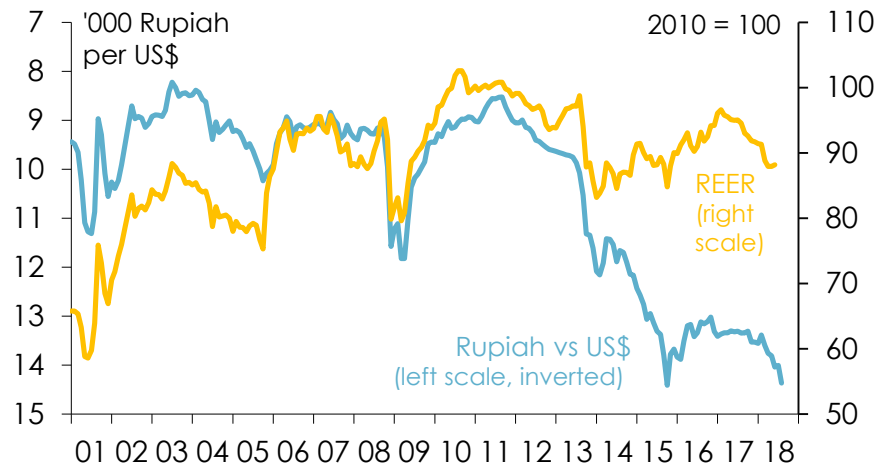


Note: Debt data for Myanmar are for 2015. Sources: Thomson Reuters Datastream; The World Bank.

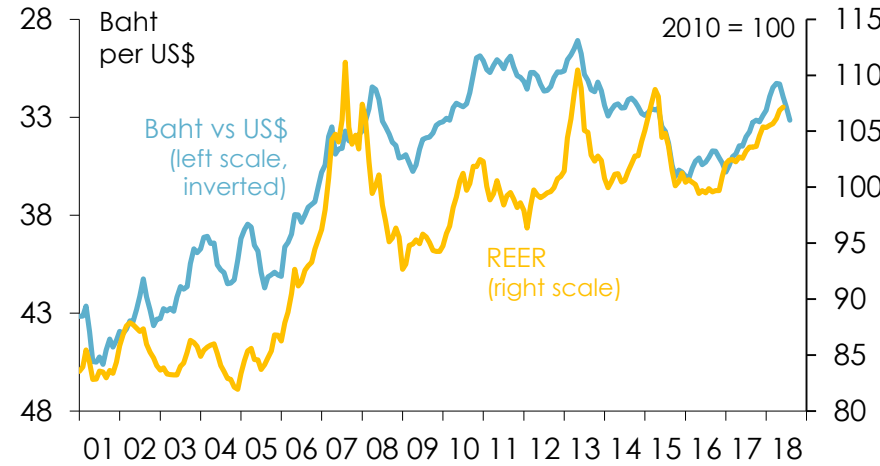
# Indonesian rupiah and Philippine peso are the most vulnerable South East Asian currencies

## Bilateral exchange rates vs US dollar and real effective exchange rates

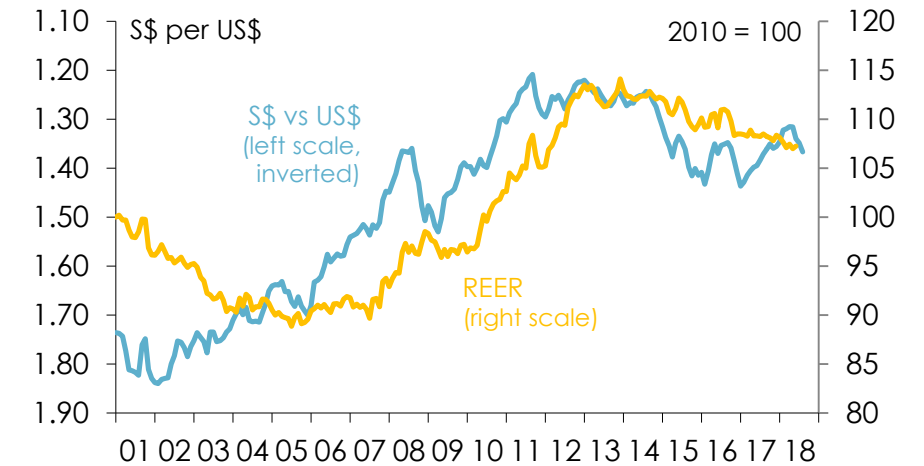
### Indonesia



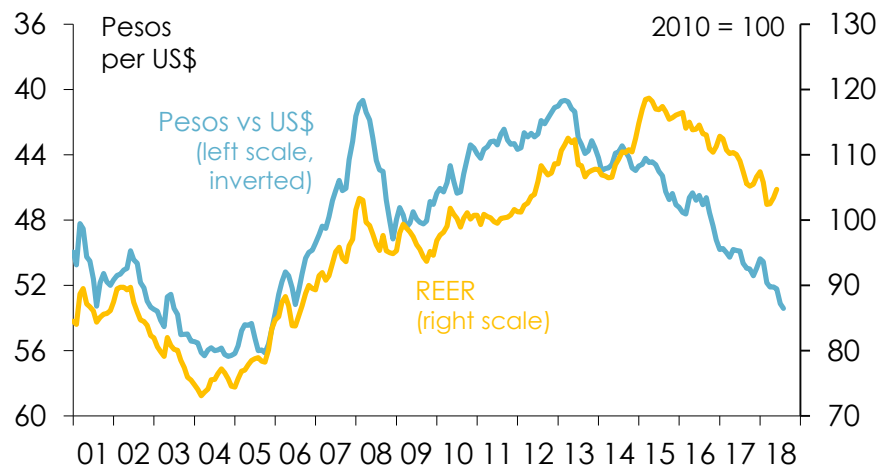
### Thailand



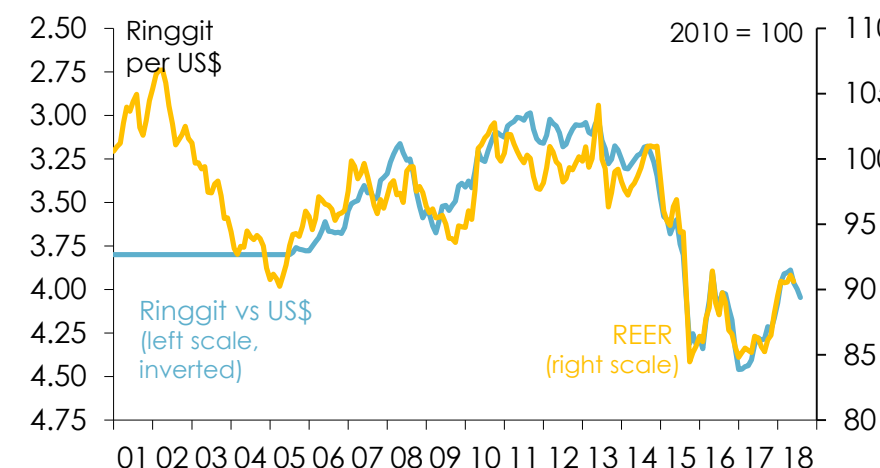
### Singapore



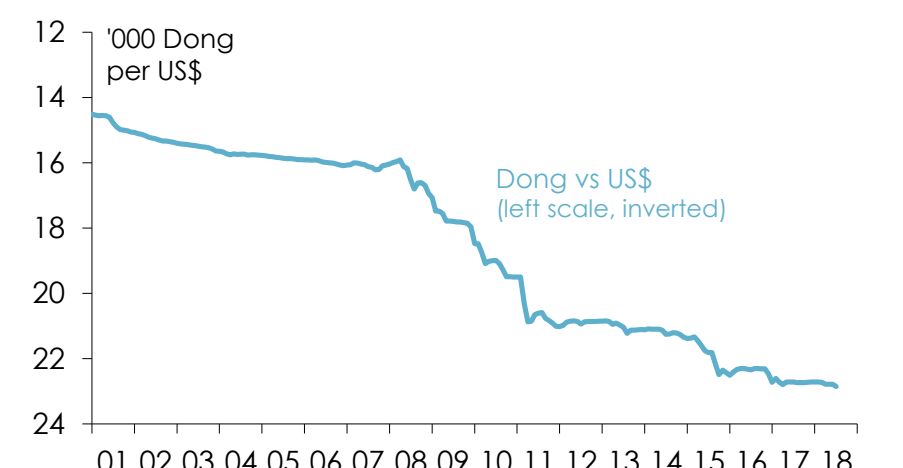
### Philippines



### Malaysia



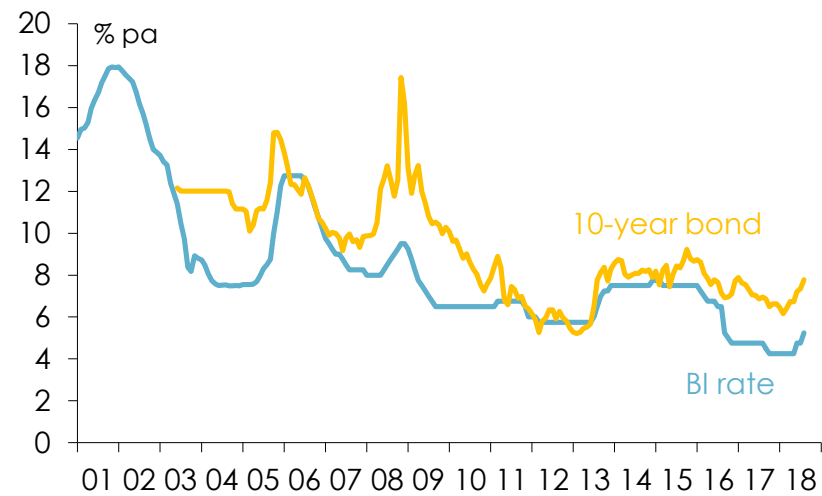
### Vietnam



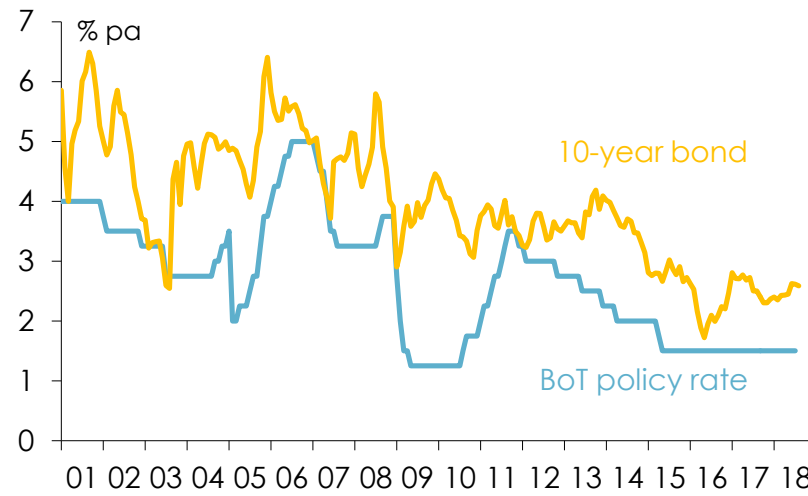
# Low inflation has allowed most Asian central banks to keep interest rates low and stable, but BI & BSP have had to hike to defend their currencies

## Monetary policy indicator rates and 10-year bond yields

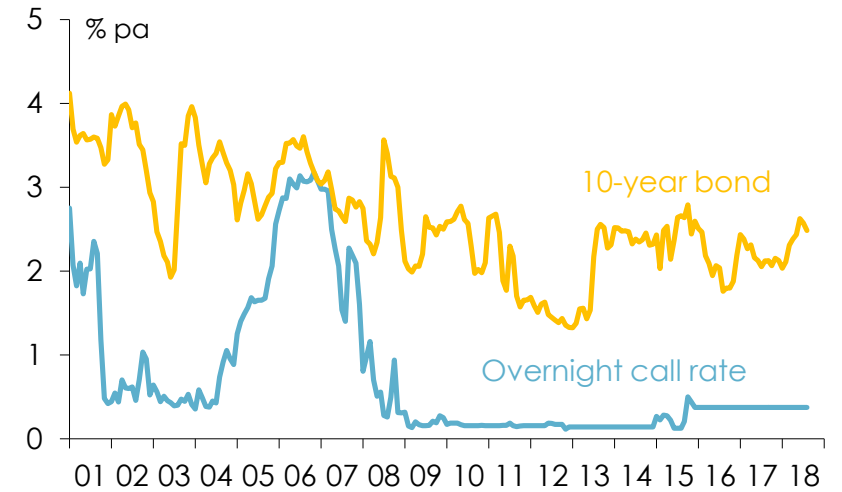
### Indonesia



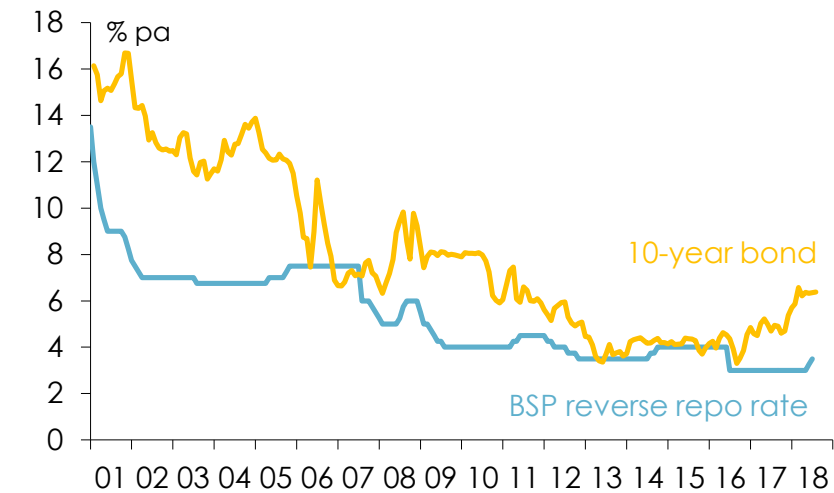
### Thailand



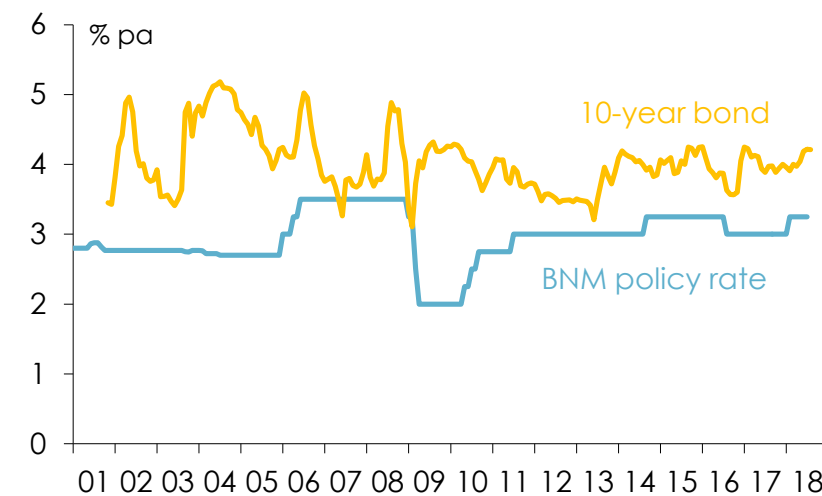
### Singapore



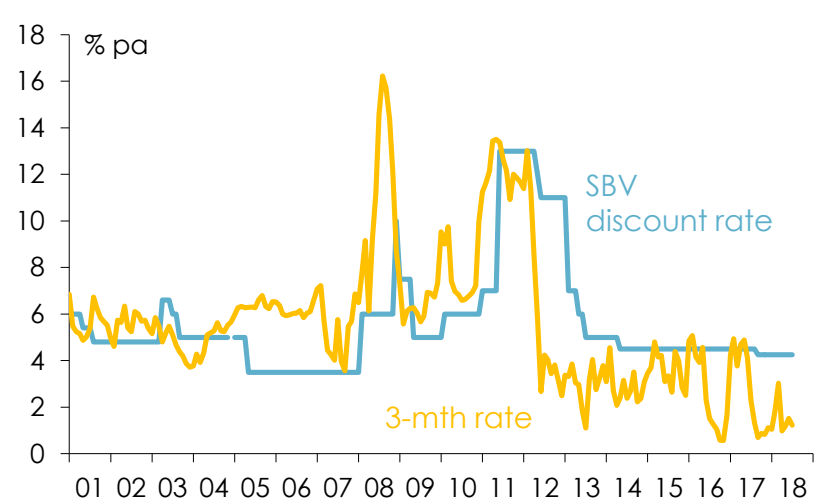
### Philippines



### Malaysia



### Vietnam



Sources: Thomson Reuters Datastream; national central banks.

# Snapshot of political developments in South East Asia

## ❑ Indonesia

- The next Presidential election will be in April 2019, and is likely to be a re-run of the 2014 contest between incumbent Joko Widodo ('Jokowi') and ex-general (and Suharto son-in-law) Prabowo Subianto
- Parliamentary elections will be held on the same day (for the first time)
- regional elections held in late June this year gave few pointers to the outcome of next year's election

## ❑ Philippines

- President Rodrigo Duterte (Asia's Donald Trump) is in office until May 2022
- Half the Senate and all of the House of Representatives are up for election in May 2019
- Duterte wants to alter the constitution to establish a federal system with 18 states (as opposed to the current Manila-centric form of governance) and to create a French-style Presidential-Parliamentary system of national government (possibly removing the single-term limit on Presidents, or creating an alternative post of PM for Duterte post-2022)

## ❑ Thailand

- The ruling military junta headed by Prayut Chan-ocha has foreshadowed elections in February 2019 (this is the sixth promised election date since the military coup in May 2014)
- The current National Legislative Assembly comprises 250 members, of whom at least 130 are military or police officers

## ❑ Malaysia

- Elections held on 9 May 2018 saw the ouster of the Barisan Nasional coalition which had ruled since 1957, by a coalition led by 92-year-old former PM Mahathir Mohamad
- former PM Najib Razak has been arrested on corruption charges related to \$billions missing from the 1MDB fund
- The new government will scrap the GST (VAT) introduced by the previous government and re-consider proposed Chinese-funded infrastructure investments
- Mahathir will supposedly hand over to his former deputy Anwar Ibrahim (whom he had jailed on trumped-up sodomy charges 20 years ago)



# China's influence in South East Asia is increasing while that of the United States is waning – making South East Asian nations apprehensive

- ❑ **China has effectively won the struggle for control of the South China Sea**
  - Since 2013 China has built a string of artificial islands in among shoals and reefs within the 'nine dash line' over which it asserts sovereignty, installing airbases, radar systems and naval facilities
  - this year China has landed bombers on the Paracel Islands, and installed anti-ship and surface-to-air missiles on the Spratly Islands
  - According to Adm. Phillip Davidson, Head of the US Indo-Pacific Command, "China is now capable of controlling the South China Sea in all scenarios short of war with the US"
- ❑ **South East Asia is a key focus for 'Belt & Road' projects**
  - Major proposed projects include a road from Kunming (Yunnan) to Bangkok, a China-Laos railway, Thailand's 'Eastern Corridor' project and (possibly) Kra Canal project, Indonesia's Jakarta-Bandung railway, and a proposed Kuala Lumpur-Singapore railway
  - The new Malaysian Government is reconsidering that country's participation in BRI projects
  - Some other countries are becoming more wary about the terms and conditions of Chinese infrastructure loans



Economist.com

"China is a big country, and other countries are small countries, and that's just a fact"

— Yang Jiechi (Chinese Foreign Minister), July 2010

# Summary and conclusions

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- ❑ Economic growth will likely slow somewhat in Indonesia and the Philippines, pick up in Thailand, and remain close to recent rates in Malaysia, Singapore and Vietnam
- ❑ Inflation will likely pick up in Thailand and the Philippines, decline in Malaysia (due to abolition of the GST), and remain low in other economies (in Indonesia partly due to regulatory caps on energy prices)
- ❑ South-East Asian economies are less vulnerable to a 'trade war' than their North-East Asian counterparts given smaller direct trade exposures – but would still be adversely affected
- ❑ South-East Asian economies also vulnerable, to varying degrees, to higher US interest rates and a stronger US dollar – with Indonesia and Philippines most exposed given weaker current account positions and higher levels of short-term external debt
- ❑ Compared with North-East Asia, South-East Asian economies have more favourable demographic profiles (with the exceptions of Singapore and Thailand), and considerable potential for lifting employment participation and labour productivity
- ❑ However, Singapore aside, South-East Asia's longer-term growth prospects are constrained by infrastructure deficiencies, domestic product and labour market inefficiencies, shortcomings in governance, and (in some cases) poorly performing education systems
- ❑ Philippines, Indonesia and Thailand all confront internal security challenges from regional separatists and/or returning jihadists, and in Indonesia's case the spread of Wahabiism sponsored by Saudi Arabia
- ❑ Considerable potential for political surprises in Malaysia, Indonesia, Thailand and Philippines
- ❑ South-East Asian nations are losing faith in the value of their alliances with the US (especially under Trump) – some are explicitly moving closer to China, but others are becoming more wary