

ASEAN ECONOMIC BULLETIN

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HIGHLIGHTS

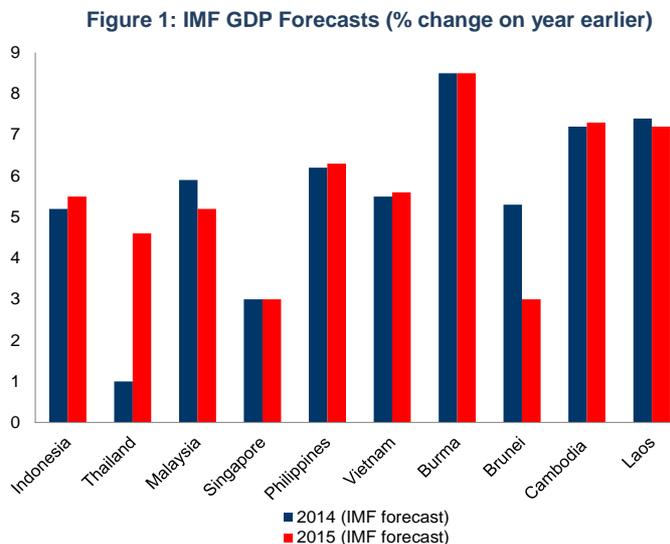
- The IMF have lowered their forecast for economic growth in SE Asia this year to 4.7%, due to the uncertain global economic outlook and slowdown in Indonesia and Thailand. But they believe growth will rebound to 5.4% in 2015.
- Indonesian President Joko Widodo was inaugurated on 20 October and announced his cabinet on 26 October. The investor and business communities will be watching closely for early indications of how supportive the Parliament will be of the president's reform agenda, as opposition parties hold the majority of seats.
- The region's second largest economy, Thailand, is only expected to grow by around 1-1.5% in 2014 but is now in the early stages of recovery. Growth is predicted to reach 4.6% next year due to the stimulus measures being rolled out by the authorities and expected recovery in the global economy.
- The Malaysian government's 2015 Budget confirms that the Goods and Sales Tax (GST) will be introduced next year at a rate of 6%, accompanied by measures to mitigate the impact on consumers and firms. The Budget also proposes further fuel subsidy reform.
- Weak global demand and the impact of domestic restructuring efforts have softened economic growth in Singapore. The Philippines has tightened monetary policy to keep inflation under control. Growth is picking up in Vietnam.
- Negotiations have concluded on the Investment Chapter of the EU-Singapore Free Trade Agreement, paving the way for ratification of the full text and implementation of the EU's first trade deal in the region next year.
- The Thai authorities have proposed reforming the Foreign Business Act and excise duties.
- The Vietnamese authorities have announced further measures to expedite the reform ("equitisation") of state-owned enterprises.



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Economic Developments

1. The IMF released their latest Regional Economic Outlook for Asia-Pacific in October ([read more](#)), following the launch of their World Economic Outlook (WEO). The IMF's global growth forecast for 2014 was revised down to 3.3% due to uncertainty over the outlook for several major developed and emerging market economies. They now expect SE Asia to grow by 4.7% in 2014, slower than in recent years. They reduced their 2014 forecasts for all members of ASEAN except Burma and Malaysia, which they raised (see Figure 1 for revised forecasts). The IMF believe a recovery in global demand will lift growth in SE Asia to 5.4% in 2015.

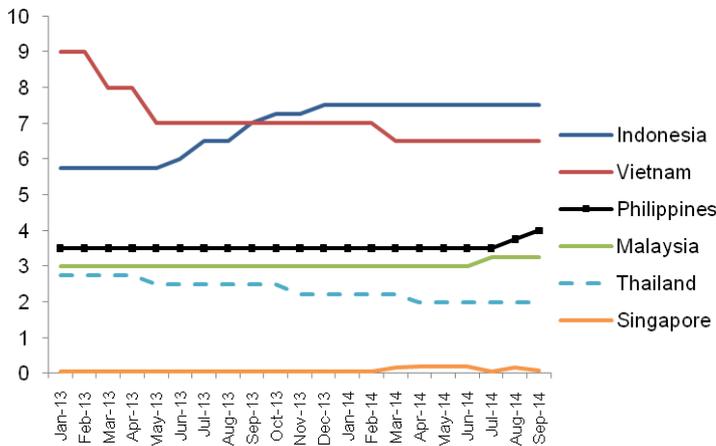


2. Indonesian President Joko Widodo was inaugurated on 20 October. The business and investor communities have mixed expectations for the new president. There is optimism that his planned reforms will lead to stronger economic growth and an improved business environment. But there are also concerns that the opposition parties, which control two-thirds of Parliament, may block his reform agenda. On 26 October, the president announced his cabinet – a mixture of technocratic and political appointments with an emphasis on those with a track record in delivering. Bambang Brodjonegoro, Deputy Minister of Finance under the last administration, was appointed Minister of Finance. Sofyan Djalil, formerly Minister of Communication and Information Technology and Minister of State-Owned Enterprises, is the new Coordinating Minister for Economic Affairs.
3. The central bank, Bank Indonesia, predicts that the economy will grow by 5.1% in 2014 – in line with the IMF's estimate and slower than in recent years. Growth has been hampered by the need to tackle Indonesia's significant current account deficit, including by tightening monetary policy. That puts the focus on fiscal policy, of which the most pressing issue is cutting fuel subsidies further. This would not only help shrink the current account deficit (by reducing oil imports) but would also enable the administration to boost much needed spending on infrastructure, health and education. The 2015 Budget, passed by Parliament in September, does not include a significant cut in fuel subsidies but it does grant President Joko Widodo the authority to make reforms next year (just as the 2014 Budget enables the president to do this year). The president has made it clear that reducing subsidies is one of his key priorities, so analysts anticipate an early reform of fuel prices.

4. The IMF believe the region's second largest economy, Thailand, will only grow by 1% in 2014, following a contraction in the first half of the year due to political developments. But some other analysts are forecasting slightly stronger growth and the country now appears to be in the early stages of recovery ([read more](#)). The authorities recently rolled out an economic stimulus package, including plans for increased infrastructure spending. They have also started providing cash transfers to rice farmers to compensate them for the low crop price and water shortages. But the country's exports continue to disappoint, there has been a slower-than-expected recovery in tourist arrivals and there are some concerns that investment projects might not be approved and launched as quickly as anticipated. High household debt (82% of GDP in 2013) is also a potential brake on consumer spending. The IMF predict the Thai economy will rebound next year though, growing by 4.6% – much healthier but still below potential. To support growth the central bank, Bank of Thailand, is maintaining a relatively loose monetary policy.
5. Malaysia's 2015 Budget, tabled in Parliament in October, confirms that the Goods and Services Tax (GST) will be implemented in April next year at a rate of 6%. But many basic goods will be exempt and compensatory measures – 50% increase in cash transfers to the poor and cuts in income and corporation taxes – mean the GST is only expected to result in a net increase in government revenue in 2015 of 0.3% (£130 million). But it is nevertheless a small step towards reducing the government's budget deficit (3.9% of GDP in 2013). The UK has provided advice to Malaysia on implementing the GST.
6. A new mechanism for reforming fuel subsidies was also announced in Malaysia's Budget, following September's 10% increase in the regulated prices for petrol and diesel (the first hike in over a year). Further subsidy reform would help improve the government's finances. The economy is performing well – growing by 6.2% in the first half of 2014 (on a year earlier) – making subsidy reform easier politically. Details of the new mechanism are yet to be released, although it has been announced that subsidies will be targeted on those with low incomes. We will report in more detail on fuel subsidies in SE Asia in the next edition of the ASEAN Economic Bulletin.
7. Singapore's economy grew by 2.4% in the third quarter of 2014 (on a year earlier). Weaker global demand, the tightening of restrictions on foreign workers and a cooling property market have all dampened growth this year. But the central bank, Monetary Authority of Singapore (MAS), believes the growth outlook for Singapore will improve as global demand recovers – although the limited supply of labour may be a constraint. In order to contain the inflationary effects from the labour market, MAS is maintaining its relatively tight monetary policy stance through an appreciating Singapore dollar.

8. The Philippine economy picked up steam in the second quarter of 2014, growing by 6.4% (on a year earlier), up from 5.7% in the previous quarter. The World Bank expects growth to be 6.4% in 2014, while the IMF and the Asian Development Bank forecast 6.2%. Private consumption and business investment remain strong drivers of growth but weak government spending is a consistent drag. The central bank, Bangko Sentral ng Pilipinas (BSP), has also had to tighten monetary policy in recent months to address inflation concerns, which have been exacerbated by the

Figure 2: Benchmark Interest Rates in Major SE Asian Economies (%)



Source: national statistics

weakening of the peso. In comparison, most other ASEAN economies have maintained a stable monetary policy stance in recent months (see Figure 2, although interest rates are not the only policy measure). There are signs the change in the BSP's policy stance could be working – inflation was 4.4% in September, down from 4.9% in August (just below the upper limit, 5%, of the central bank's target range).

9. The Philippine government has warned that existing power supplies will fall short of peak demand in summer (March-May) next year, which could lead to blackouts and higher prices. The Electric Power Industry Reform Act, passed in 2001, privatised the power industry and banned the government from participating in the market. Congress has decided against granting the president emergency powers to intervene directly in the market and reports suggest the government may instead subsidise businesses to use extra power generators. The Philippines already has some of the highest power costs in Asia, undermining its industrial competitiveness ([read more](#)).
10. Vietnam appears to be on track to reach the government's 5.8% growth target for 2014. GDP expanded by 6.4% in the third quarter (on a year earlier), up from 5.4% in the previous quarter. Domestic economic activity picked up, with the rate of growth in the industrial and construction sectors accelerating to 8.3% ([read more](#)). External demand also remains strong and Vietnam will likely continue to record a small (goods) trade surplus this year. Foreign direct investment (FDI) inflows remain robust, with manufacturing receiving the lion's share. Price pressures remain relatively benign – inflation fell to a rate of 3.2% in October, the lowest since November 2009.
11. The IMF predict the frontier emerging markets in ASEAN will continue to grow rapidly this year and next. They raised their growth forecast for Burma to 8.5% for both 2014 and 2015, and are expecting Cambodia and Laos to grow by more than 7% in both years. Richer Brunei is forecast to slow to 3% next year, given a less optimistic outlook for the oil and gas sector, on which it depends heavily.

Trade Policy Developments

12. Negotiations on the Investment Chapter of the EU-Singapore Free Trade Agreement (EUSFTA) were concluded in October, paving the way for ratification and implementation of the full text. The final chapter will now undergo legal “scrubbing” and translation into all official EU languages, before being presented with the rest of the (already initialled and scrubbed) EUSFTA text to the European Council and Parliament for approval. The EU’s first free trade agreement (FTA) with a SE Asian country could then come into force in 2015. Negotiations on the EU-Vietnam FTA were not concluded in October, as the Vietnamese authorities had hoped, but they are expected to end in the first half of 2015.
13. The Thai authorities have proposed combining 7 existing excise-related regulations into one and applying a new methodology for calculating excise tax, based on the suggested retail price. According to the Excise Department, the authorities will also revise the licensing classifications and related duties for domestically produced and imported alcoholic beverages. The Ministry of Public Health is reportedly considering new requirements for graphic health warnings on alcoholic beverages, which would apply to both imported and locally produced products.
14. Congestion at Manila’s ports, which hit 110% of capacity in June, has clogged city streets and raised logistics costs across the country. The government’s response, led by the Bureau of Customs (BoC) and the Department of Finance, has begun to see some success – pushing shipping to outlying ports has brought traffic out of Manila and business into other ports. The BoC is also indefinitely postponing its use of controversial pre-shipment inspections until the ports are less congested. Customs reform legislation is on the list of legislative priorities for 2014 – if passed, the bill will lower costs by streamlining processes.
15. ASEAN economic (trade/industry) ministers gathered in Burma at the end of August. The ministers stated that 82.1% (188 out of 229 measures) of the ASEAN Economic Community (AEC, single market) blueprint had been implemented, ahead of the end 2015 deadline. They signed a new protocol to make it easier for member states to amend their ‘reservation lists’ in the ASEAN investment liberalisation agreement, which could lead to member states excluding fewer sectors. ASEAN ministers also endorsed proposals on how to upgrade the existing China-ASEAN FTA and welcomed the launch of FTA negotiations with Hong Kong. Along with their Australian and New Zealand counterparts, they signed a protocol to amend the FTA between the two countries and the SE Asian bloc, aimed at making it easier for businesses to utilise the preferential terms on offer ([read more](#)). The ASEAN-India Trade in Services and Investment Agreement was signed after the Burma meeting ([read more](#)).

Business Environment and Regulatory Developments

16. Several laws were passed by the Indonesian Parliament in September that could have implications for foreign companies. A new Insurance Law authorises the setting of a cap on foreign ownership in the sector, which is to be determined through consultation with Parliament and the financial regulator (OJK). The long-delayed Halal Law will lead to changes in the institutional structure for Halal certification for food, cosmetics and pharmaceuticals and could potentially impact on exporters of those products to Indonesia. The new Copyright Law is expected to provide stronger intellectual property protection, including specific sanctions for copyright infringement. But the effectiveness of the law will depend on the level of enforcement.
17. The Thai authorities have proposed amending the Foreign Business Act. Foreign companies are concerned this might lead to further restrictions but the exact nature of the proposed reforms is not yet clear. The authorities claim any changes will be aimed at ensuring fair competition.
18. Inter-linked reforms to the banking sector and state-owned enterprises (SOEs) in Vietnam remain behind schedule, preventing the economy from growing at its full potential. In order to expedite SOE reform, the authorities announced new measures in September to facilitate the disposal of state assets, including by allowing their stakes to be sold below face value. The authorities are also drafting revised laws on enterprises, tax and investment. These could be passed by the National Assembly later this year or early next year and may help improve the business environment in Vietnam.
19. Legislation is expected to be tabled in the coming months to push forward the liberalisation of the engineering and architectural sectors in Malaysia. But the exact scope of liberalisation is unclear as the rules regulating the sector will be developed by the Board of Engineers and Board of Architects, respectively, following the passage of the bill. The UK Foreign Office's Prosperity Fund is supporting the Malaysian authorities with these reforms.
20. Singapore has topped the World Bank's Doing Business rankings for the 9th year in a row. The 2015 report, released on 30 October, highlights the disparity across the region – 6 of the 10 members of ASEAN rank in the bottom half of the survey. The latest survey saw improved rankings for Malaysia (18th), Thailand (26th), Indonesia (114th), Laos (148th) and Burma (177th). The Philippines saw the largest fall, from 86th to 95th, while Vietnam (78th), Brunei (101st) and Cambodia (135th) also moved down the rankings ([read more](#)).
21. Announcements made during the state visit by President Tan of Singapore to the UK in October included the launch of an exchange programme for intellectual property officials from the two countries ([read more](#)), as well as confirmation that the first round of the UK-Singapore Financial Dialogue and Renminbi Forum would take place in Singapore on 27-28 January 2015 ([read more](#)).



Foreign & Commonwealth Office

For further information please contact:

SE ASIA ECONOMIC & TRADE POLICY NETWORK

REGIONAL DIRECTOR: Peter Mumford – peter.mumford@fco.gov.uk

BRUNEI: Delwin Keasberry – delwin.keasberry@fco.gov.uk

BURMA: Anthony Preston – anthony.preston@fco.gov.uk

CAMBODIA: Kongchheng Poch – kongchheng.poch@fco.gov.uk

INDONESIA: Ibnu Wiyono – ibnu.wiyono@fco.gov.uk

LAOS: Moukdavanh Sysouphanthavong – moukdavanh.sysouphanthavong@fco.gov.uk

MALAYSIA: Fadli Hafiz – fadli.hafiz@fco.gov.uk

PHILIPPINES: Aaron Chan – aaron.chan@fco.gov.uk

SINGAPORE: Francesca McKee – francesca.mckee@fco.gov.uk

THAILAND: Boonyarat Kittivorawut – boonyarat.kittivorawut@fco.gov.uk

VIETNAM: Pham Thuan Hai – pham.hai@fco.gov.uk

SE ASIA IP ADVISOR: Christabel Koh – christabel.koh@fco.gov.uk

PROSPERITY FUND: Benjamin Chew – benjamin.chew@fco.gov.uk

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