



# GROWTH OUTLOOK DYNAMISM IN MEKONG REGION

BASED ON *ECONOMIC OUTLOOK FOR  
SOUTHEAST ASIA, CHINA AND INDIA*

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OECD Development Centre

3 August, Mekong Forum, Khon Kaen, Thailand



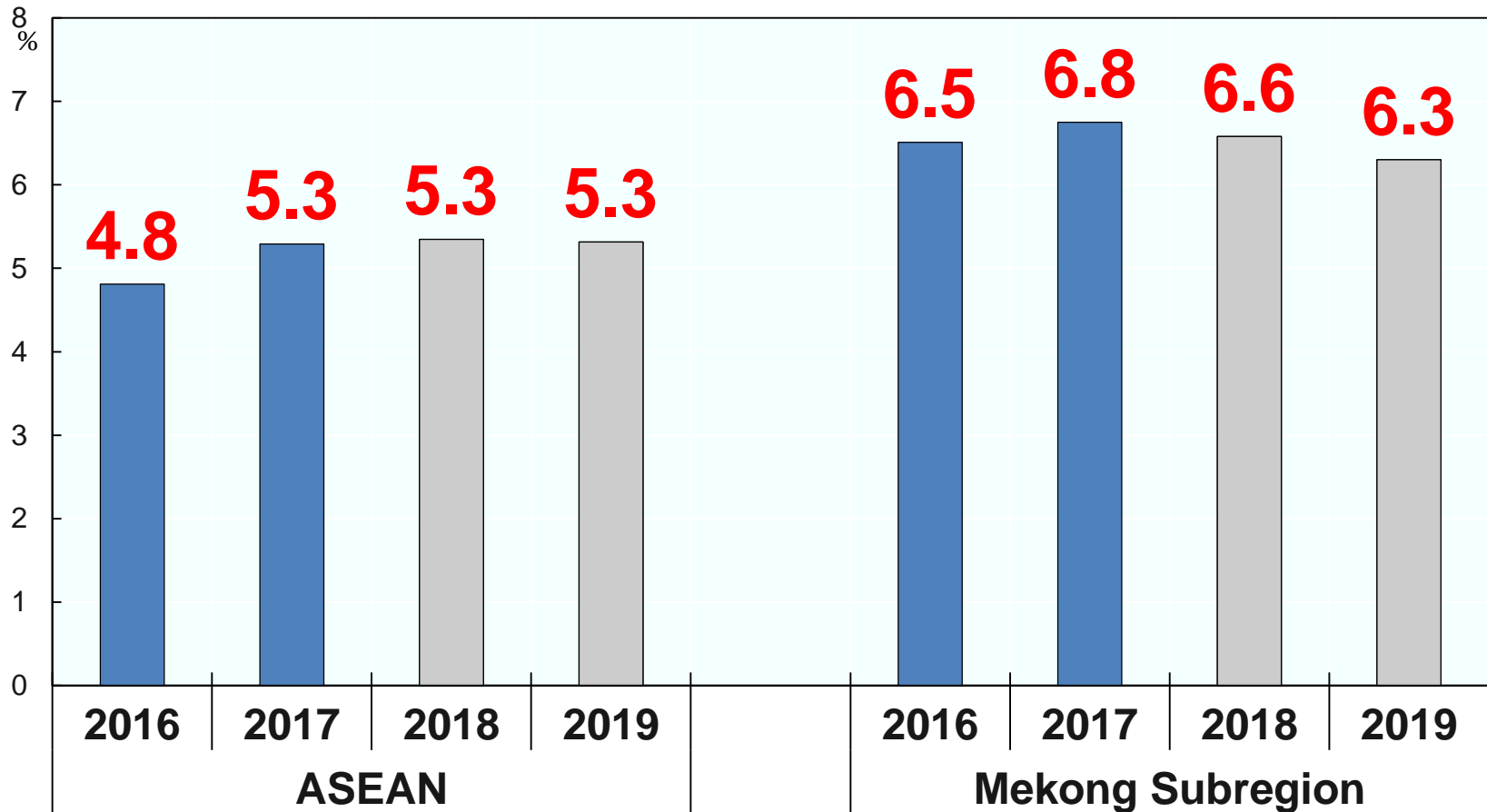
# Outline

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- **Economic outlook and risks**
- **Policy challenges-  
competitiveness and connectivity**



# Growth in Emerging Asia will steady in 2018 and 2019





# Overview: Growth in the region

**Real GDP growth of ASEAN, China and India, Annual percentage change**

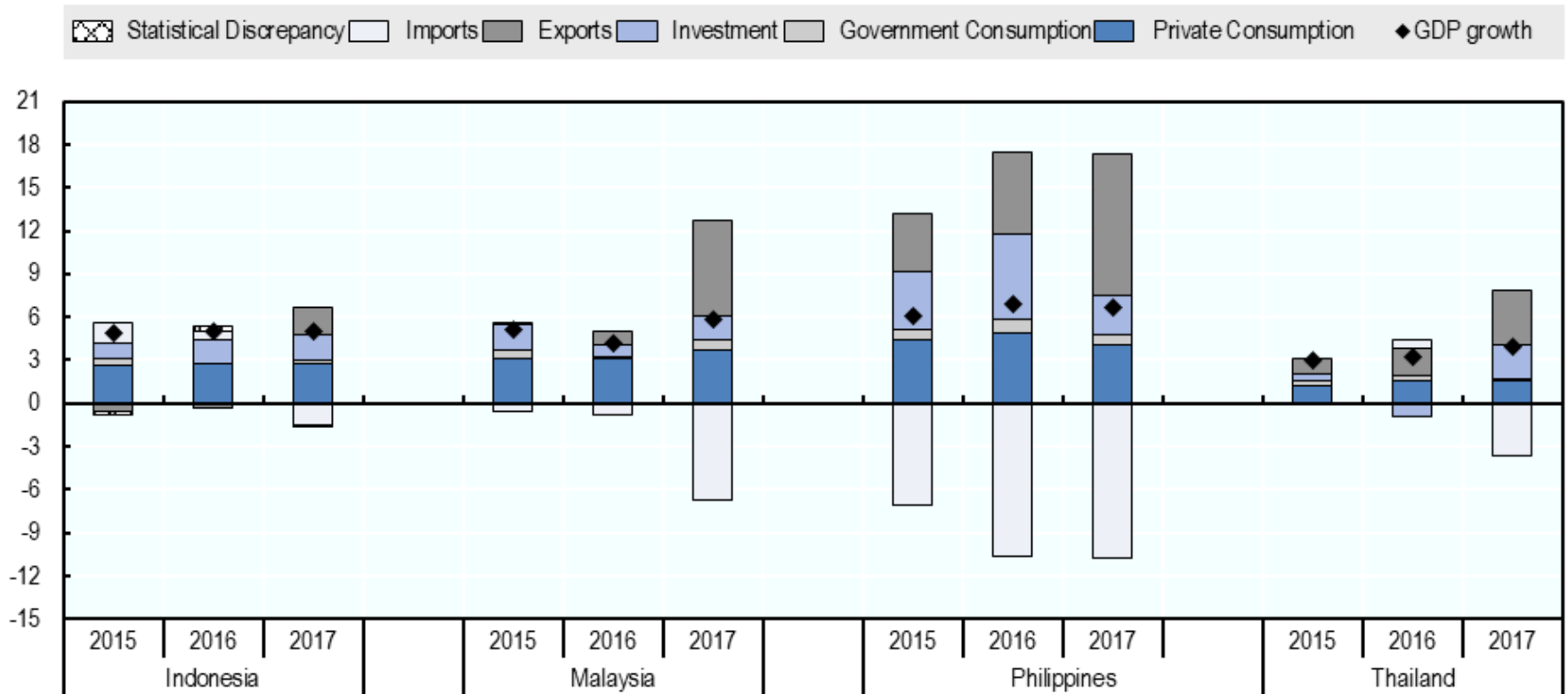
	2016	2017	2018	2019
<b>ASEAN-5 countries</b>				
Indonesia	5.0	5.1	5.3	5.4
Malaysia	4.2	5.9	5.3	5.1
Philippines	6.9	6.7	6.7	6.7
Thailand	3.3	3.9	4.0	3.9
Viet Nam	6.2	6.8	6.9	6.6
<b>Brunei Darussalam and Singapore</b>				
Brunei Darussalam	-2.5	1.3	1.5	2.1
Singapore	2.4	3.6	3.5	3.0
<b>CLM countries</b>				
Cambodia	7.0	7.0	7.0	7.0
Lao PDR	7.0	6.9	6.8	6.9
Myanmar	5.9	6.8	6.9	7.1
<b>China and India</b>				
China	6.7	6.9	6.7	6.4
India	7.1	6.7	7.4	7.5
Average of ASEAN-10	4.8	5.3	5.3	5.3
Average of Emerging Asia	6.4	6.5	6.6	6.5

Notes: The cut-off date for data used is 16 June 2016. ASEAN and Emerging Asia growth rates are the weighted averages of the individual economies subsumed. Cambodia and Myanmar's 2017 data are preliminary estimates. The data of India and Myanmar follow fiscal years. For Myanmar, 2018 refers to the interim six-month period from April 2018 to September 2018, while 2019 refers to the fiscal year from October 2018 to September 2019. The projections of China, India and Indonesia are based on the OECD Economic Outlook No. 103 (database).



# Trend 1: Domestic demand mainly drove GDP growth

## Contribution to real GDP growth in selected ASEAN economies, 2015-17 Percentage points



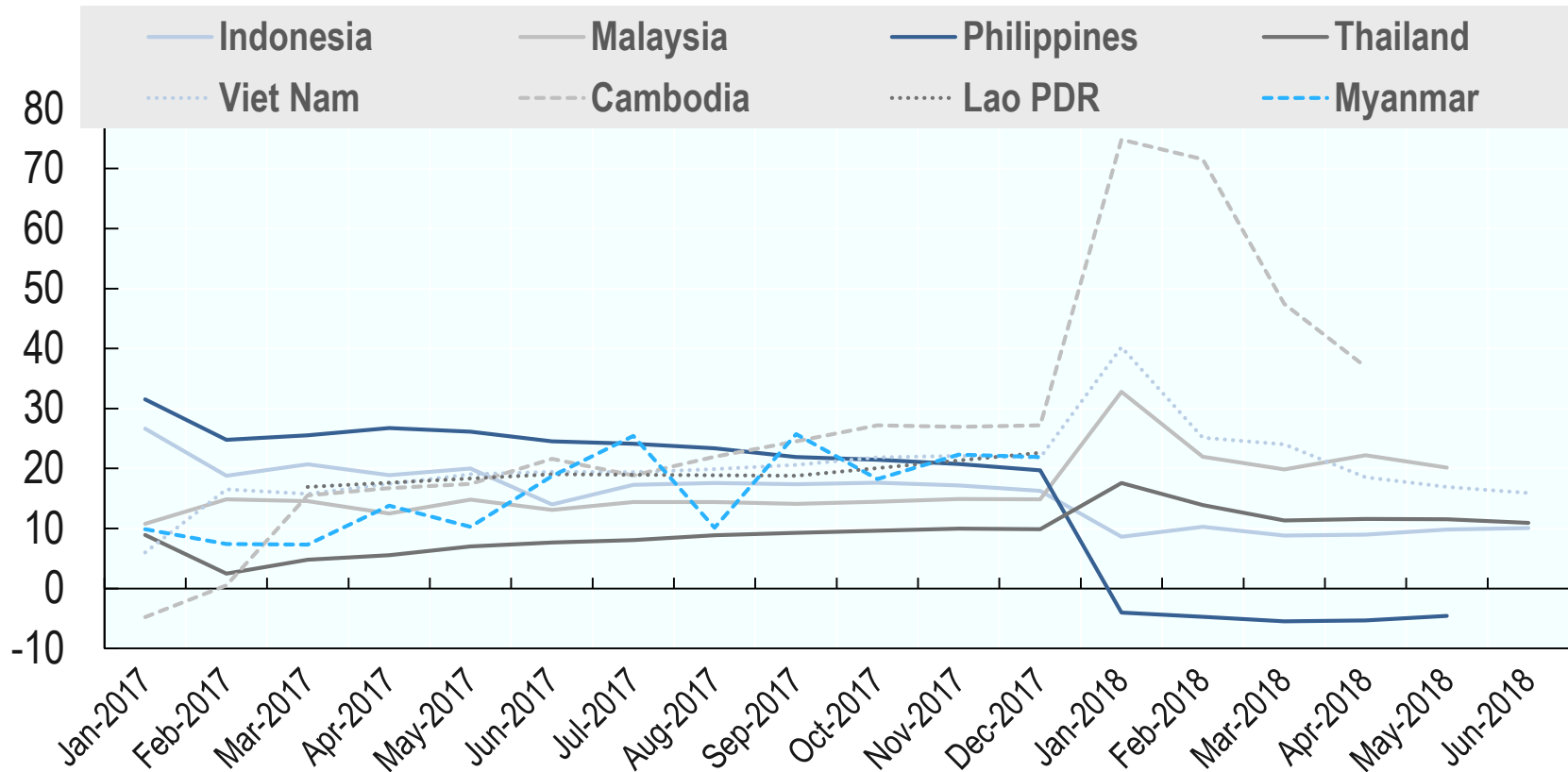
Notes: Thailand uses chain volume measures. The sum of contributions to growth is not necessarily equal to GDP growth. Viet Nam has not yet published the demand-side components of GDP.

Source: OECD Development Centre calculations based on CEIC data.



# Trend 2: Export growth is moderating

## Goods exports value of ASEAN countries, 2017-18 YOY YTD growth



Note: Data of India and Myanmar follow fiscal year. Calculations are based on levels in US dollars. Data are as of 1 August 2018.

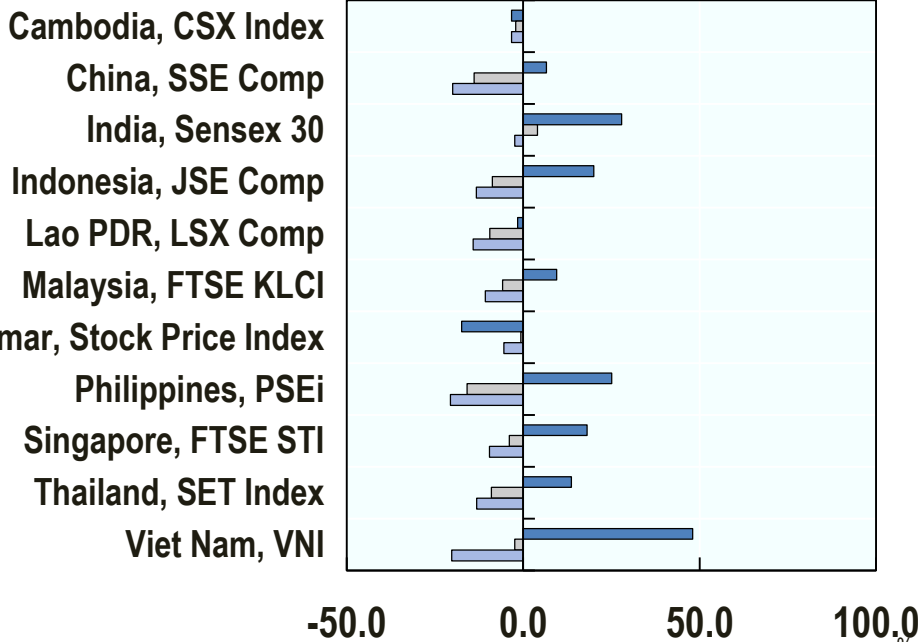
Source: OECD Development Centre calculations based on CEIC.



# Trend 3: Optimism in capital markets has softened

## Equity market returns in Emerging Asia, 2016-18

■ End-Dec 2016 vs End-Dec 2017     ■ End-Dec 2017 vs End-Jun 2018  
■ Peak (1 Nov 2017 to 30 Apr 2018) vs end-Jun 2018



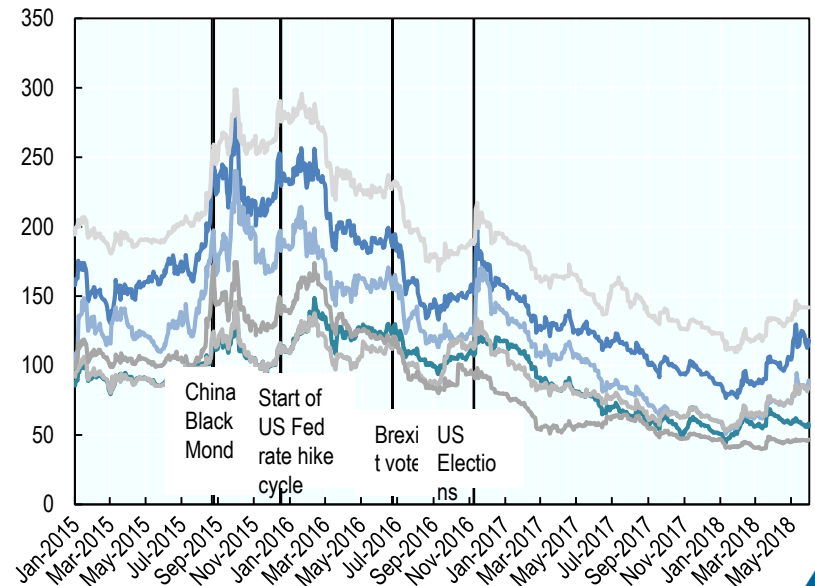
Note: Data are as of 29 June 2018.

Source: OECD Development Centre based on Fusion Media Ltd., [www.investing.com](http://www.investing.com).

## Credit Default Swap (5-year senior) in ASEAN-5 and China, 2015-18

Mid-spread, basis points

— China     — Indonesia     — Malaysia  
— Philippines     — Thailand     — Viet Nam

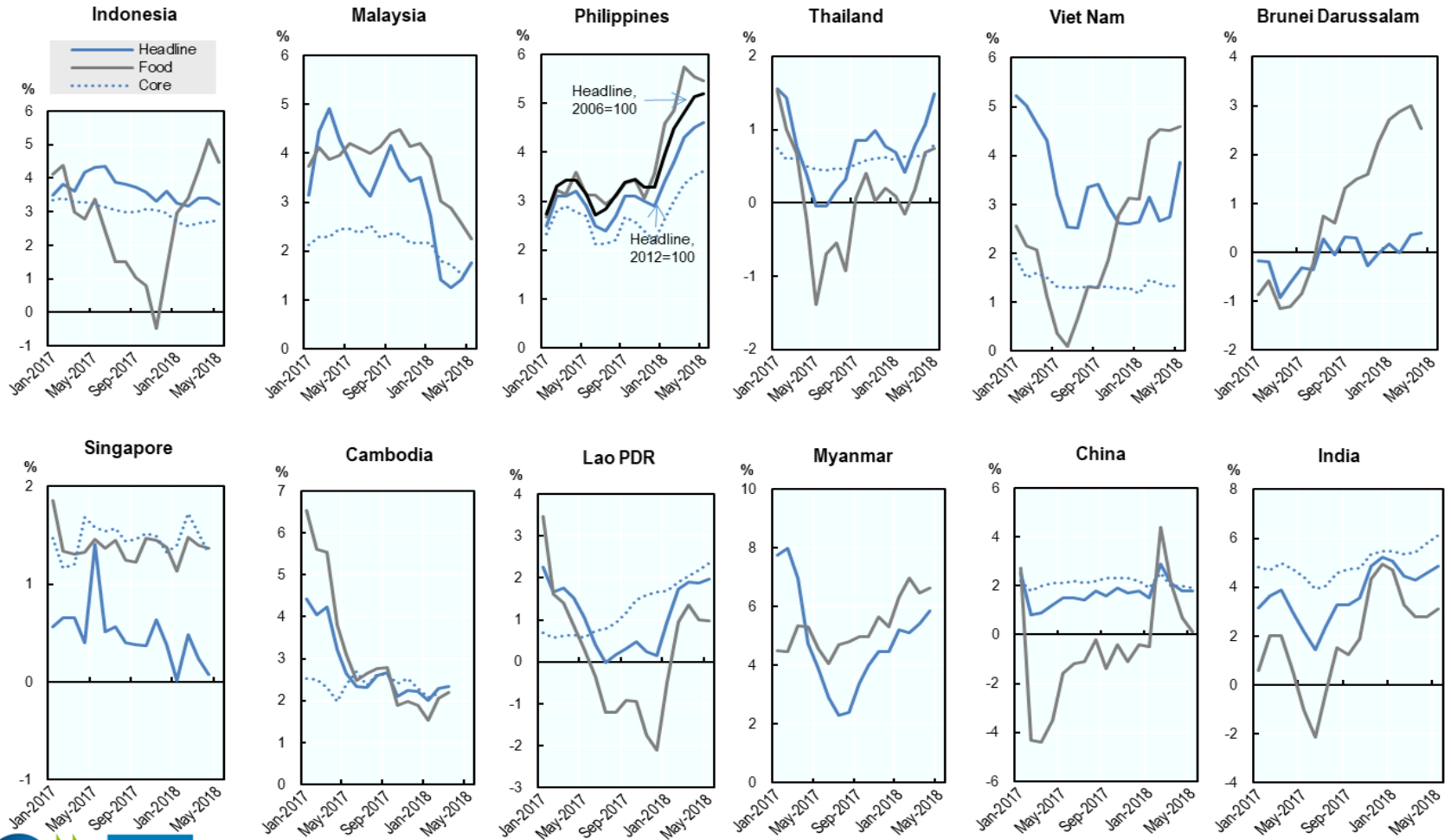


Note: Data are as of 31 May 2018.

Source: OECD Development Centre and Thompson Reuters.



# Trend 4: Inflation trend generally gaining traction



Notes: The Philippine Statistics Authority re-indexed the country's headline CPI from 2006=100 to 2012=100. Core inflation of Cambodia refers to CPI excluding Food, Non-Alcoholic Beverage and Energy.

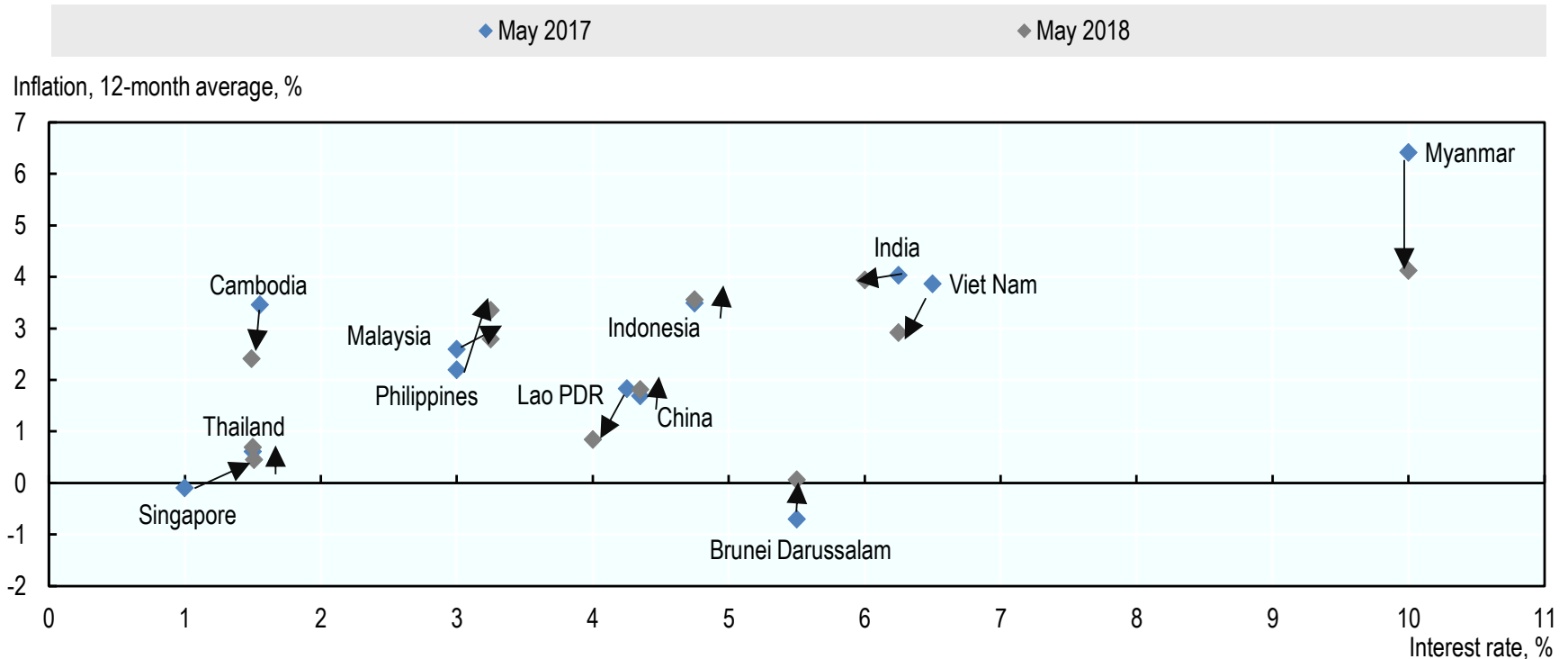
Source: OECD Development Centre calculations based on CEIC and national sources.





# Trend 5: Monetary policy becomes pro-active

## Evolution of inflation and benchmark interest rates in Emerging Asia

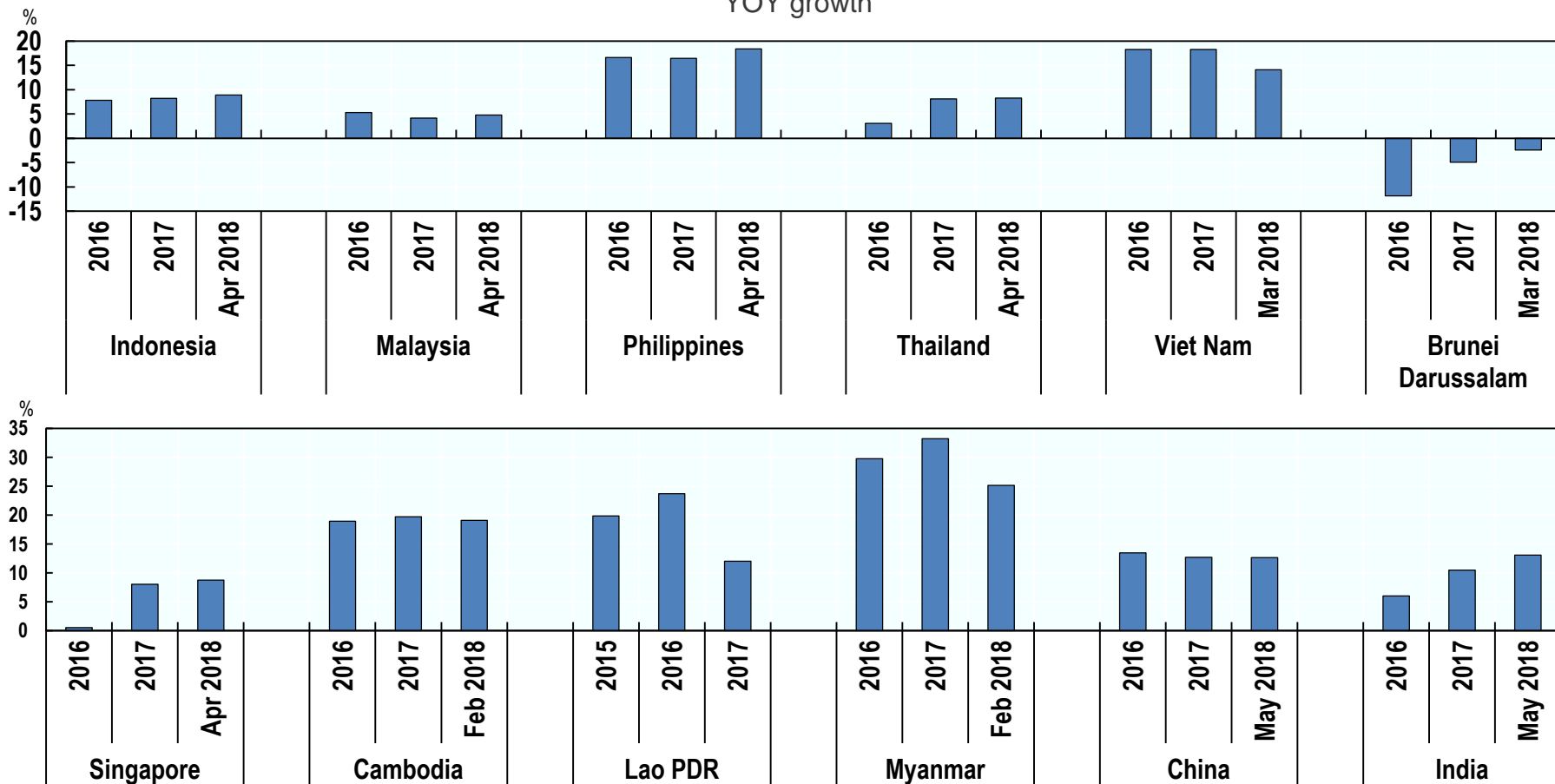


*Note:* The policy and benchmark interest rates used in the chart are as follows: prime lending rate (Brunei Darussalam), saving deposit rate as provided by IMF (Cambodia), nominal lending rate ≤1 year (China), repo rate (India), BI 7-day reverse repo rate (Indonesia), BOL short-term lending rate (Lao PDR), overnight policy rate (Malaysia), central bank 1-year fixed deposit rate (Myanmar), reverse repo rate (Philippines), monthly average of SIBOR (Singapore), repo rate (Thailand) and refinancing rate (Viet Nam). Annualised inflation pertains to 12-month average of monthly inflation rates up to the latest data. Latest data: Brunei Darussalam, Malaysia, Myanmar and Singapore are as of April 2018. Data of Cambodia are as of March 2018.



# Bank lending in Emerging Asia continues to grow in 2018

Bank lending in Emerging Asian countries, 2016-18  
YOY growth



*Note:* Indonesia-Commercial and rural bank loans; Malaysia-Total banking sector loans; Philippines-Total banking sector loans; Thailand-Outstanding commercial bank credit; Viet Nam-Total outstanding bank credit; Brunei Darussalam-Commercial bank loans; Singapore-Loans and advances, ACU and DBU; Cambodia-Deposit money bank total gross loan; Lao PDR-Commercial bank total loans; Myanmar-Other depository corporation claims on private sector; China-Total loans; and India-Scheduled bank credit.

*Source:* OECD Development Centre calculations based on CEIC and national sources.



# Risks to the Outlook

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- Impact of rising interest rates in advanced economies, in particular the United States;
- Implementation of infrastructure projects; and
- Acceleration of regional integration amidst rising protectionism



# Challenge 1: Rising interest rates in advanced economy

## Summary of the recent central bank policy-rate changes in Emerging Asia

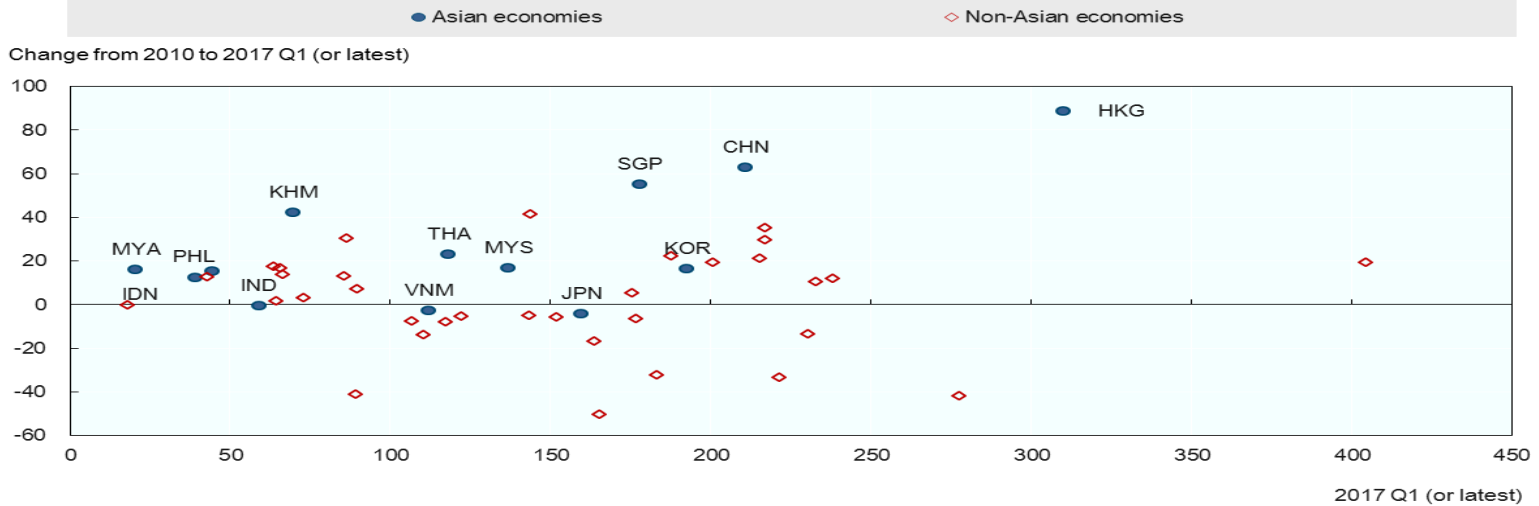
Country	Policy rate action	Primary underlying reasons
India	6 June 2018: Raised by 25 basis points.	To guide inflation expectations and the exchange rate taking into account the economic growth trend
Indonesia	17 May 2018: Raised by 25 basis points.	To guide the exchange rate and maintain economic stability amid escalating global financial market risks and the global liquidity downturn
	30 May 2018: Raised by 25 basis points.	To maintain exchange rate stability against a higher-than-expected US Federal Funds Rate increase and rising risks in the global financial market, while keeping inflation in check
	29 June 2018: Raised by 50 basis points.	To guide the exchange rate and as a pre-emptive measure to maintain the domestic financial market's competitiveness considering the monetary changes in some countries and global uncertainties
Malaysia	25 January 2018: Raised by 25 basis points.	To normalise the degree of monetary accommodation in step with prevention of build-up of risks that could arise from low interest rates.
Philippines	10 May 2018: Raised by 25 basis points.	To guide inflation expectations and the exchange rate as the central bank continues to monitor domestic and global economic environment, including the monetary policy normalisation in advanced economies
	20 June 2018: Raised by 25 basis points.	To guide inflation expectations and the exchange rate while BSP remains vigilant against domestic and international developments that could affect the outlook for inflation



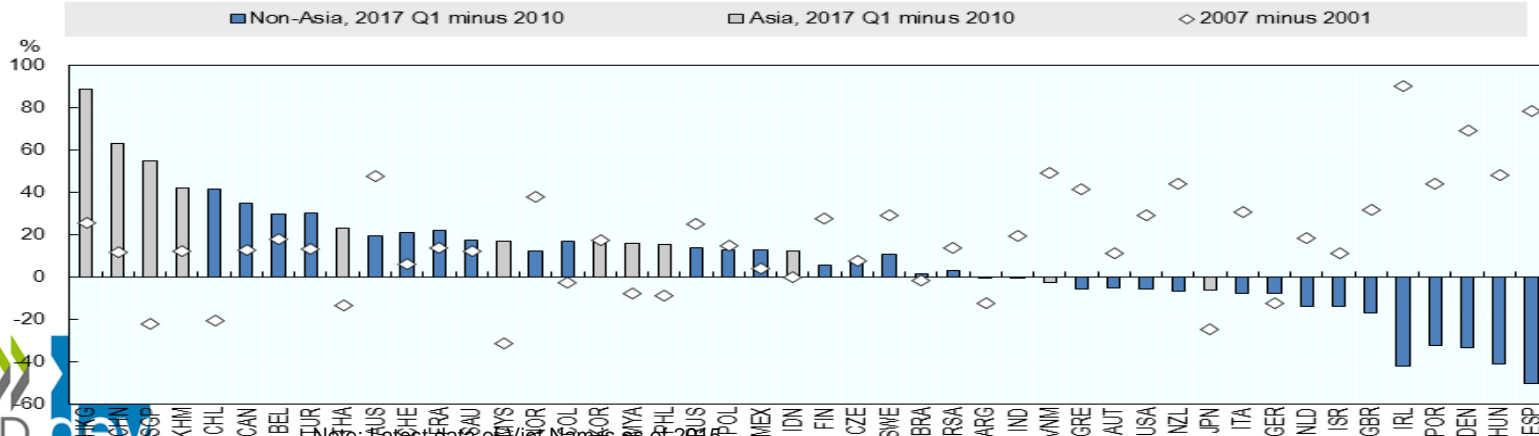


# Rapid rise in private sector debt requires close attention

## Credit to private non-financial sector, percentage of GDP



## Change in private sector credit-to-GDP ratio, 2010-17 Q1 vs. 2001-07





## Challenge 2: Efficiency in infrastructure spending and delivery

### Recent capital expenditure in selected Emerging Asian countries

Country	Time period	Budget appropriation or expected expenditure	Actual expenditure
Lao PDR	FY2014/15	LAK 10.7 trillion	LAK 11.4 trillion
Philippines	FY2017	PHP 773.3 billion	PHP 858.1 billion
Singapore	FY2017	SDG 18.8 billion	SGD 17.8 billion
Thailand	FY2017	THB 632.6 billion	THB 380.8 billion
India	2016/17	INR 3.1 trillion	INR 2.8 trillion



# Challenge 3: Advancing trade integration amid rising protectionism

## Non-tariff measures recorded for ASEAN members, 2015

Non-Tariff Measures	BND	IDN	THA	SGP	MYS	PHL	VNM	KHM	LAO	MYA
<b>Technical Measures</b>										
<b>A. Sanitary and phytosanitary measures and B. Technical barriers to trade and C. Pre-shipment inspection and other formalities</b>	X	X	X	X	X	X	X	X	X	X
<b>Non-technical Measures</b>										
<b>E. Non-automatic licensing, quotas, prohibitions and quantity control measures other than for SPS or TBT</b>	X	X	X	X	X	X	X	X	X	X
<b>F. Price-control measures, including additional taxes and charges</b>	X	X	X	X	X	X	X	X	X	X
<b>G. Finance measures</b>						X	X		X	
<b>H. Measures affecting competition</b>		X	X			X	X			X
<b>Exports</b>										
<b>P Export-related measures</b>	X	X	X	X	X	X	x	X	X	X



# Policy challenges- Competitiveness and Connectivity

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- **Infrastructure**
- **FDI**
- **Human capital development**
- **Energy**
- **Digitalisation**
- **Agriculture**
- **Tourism**





# GMS infrastructure projects

Selected Infrastructure Projects in Greater Mekong Subregion, Proposed and Recently approved  
Nov 2015-March 2020

## Project

**GMS East-West Economic Corridor Highway Development Project**

**Yuxi-Mohan Subregional Railway Link Project**

**GMS Highway Modernization Project**

**GMS Corridor Connectivity Enhancement Project**

**Fourth GMS Corridor Towns Development Project**

**GMS Highway Expansion Phase 2 Project**

**Road Network Improvement Project**

**Third GMS Corridor Towns Development Project**

**GMS East-West Economic Corridor Highway Development**

**GMS Corridor Connectivity Enhancement Project**

**Second Northern GMS Transport Network Improvement Project (Additional Financing)**

**Fourth GMS Corridor Towns Development Project**

**Connecting the Railways of the GMS**

**GMS Ben Luc-Long Thanh Expressway Project- Tranche 2 (parallel cofinancing)**

**Second GMS Tourism Infrastructure for Inclusive Growth Project**

**Second Northern GMS Transport Corridor (additional financing)**

**Second GMS Corridor Towns Development Project**

**GMS East-West Economic Corridor Eindu to Kawkareik Road Improvement Project**

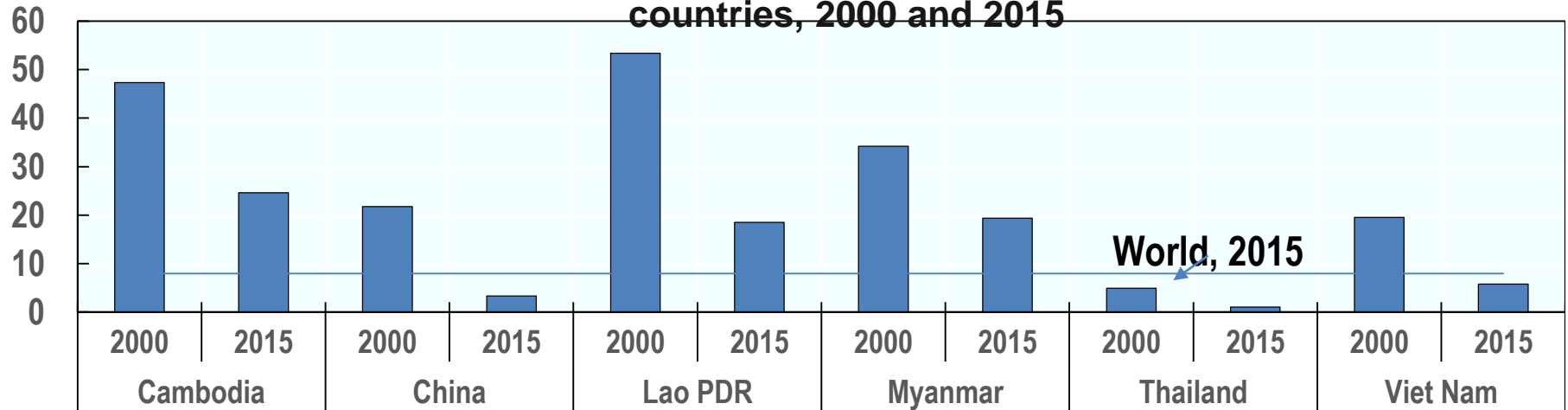
Note: Data accessed on 30 July 2018

Source: Greater Mekong Subregion Secretariat, Regional Cooperation and Operations Coordination Division, Southeast Asia Department, Asian Development Bank, <http://greatermekong.org/about>

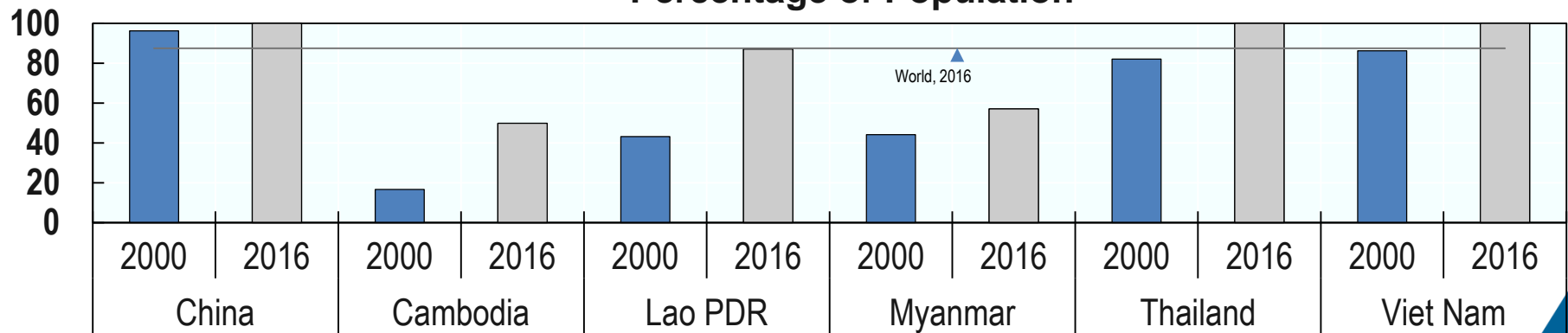


# Policy challenge1: Infrastructure

Share of population using unimproved and surface water (USW) in GMS countries, 2000 and 2015



Access to Electricity in GMS economies, 2000 and 2016  
Percentage of Population





# Policy challenge 1:

## Infrastructure

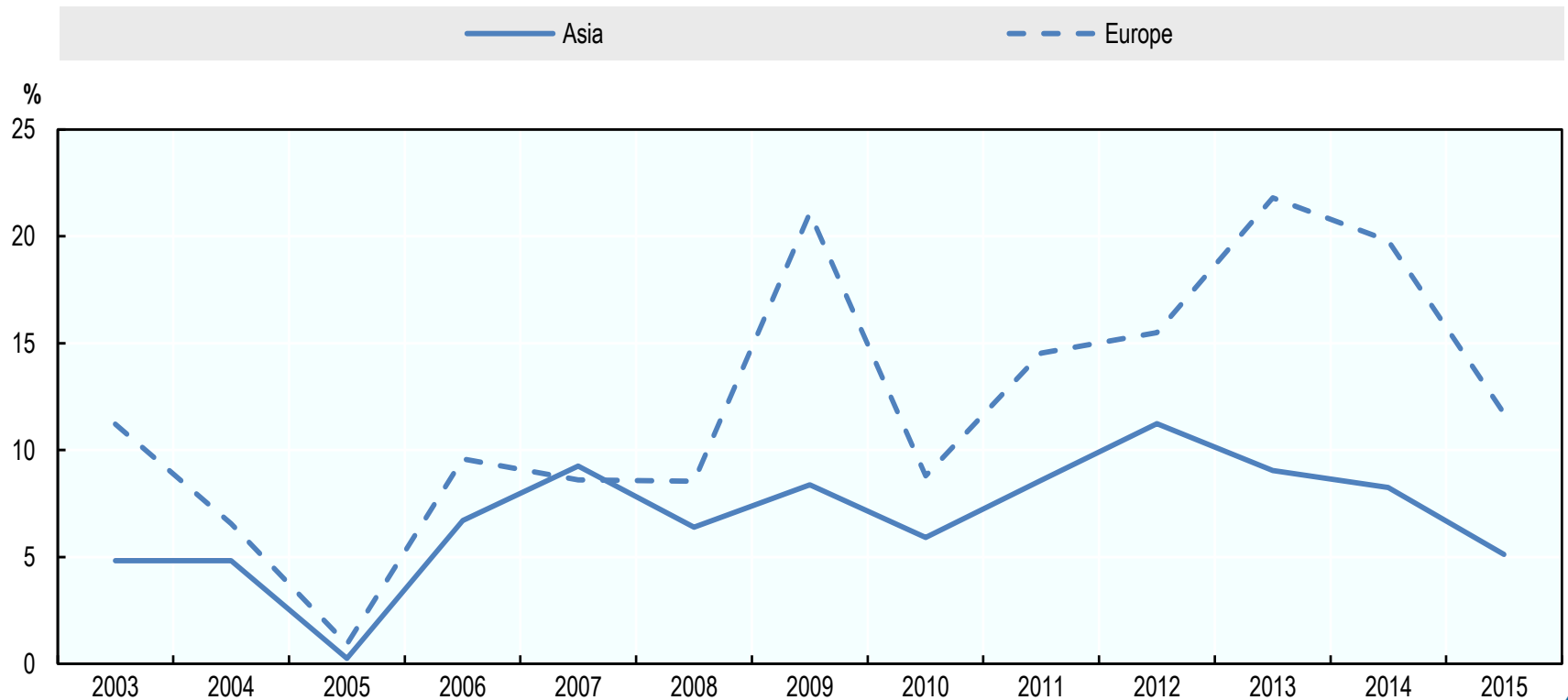
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- A comprehensive perspective on infrastructure – social, environmental impacts
- Improving infrastructure financing
- Building up local governments' capacity to implement infrastructure investment
- Bringing development strategies and infrastructure planning into closer alignment



# Asian capital markets for infrastructure financing are relatively underdeveloped

## Infrastructure bonds outstanding as share of gross domestic product in Asia and Europe, 2003-15



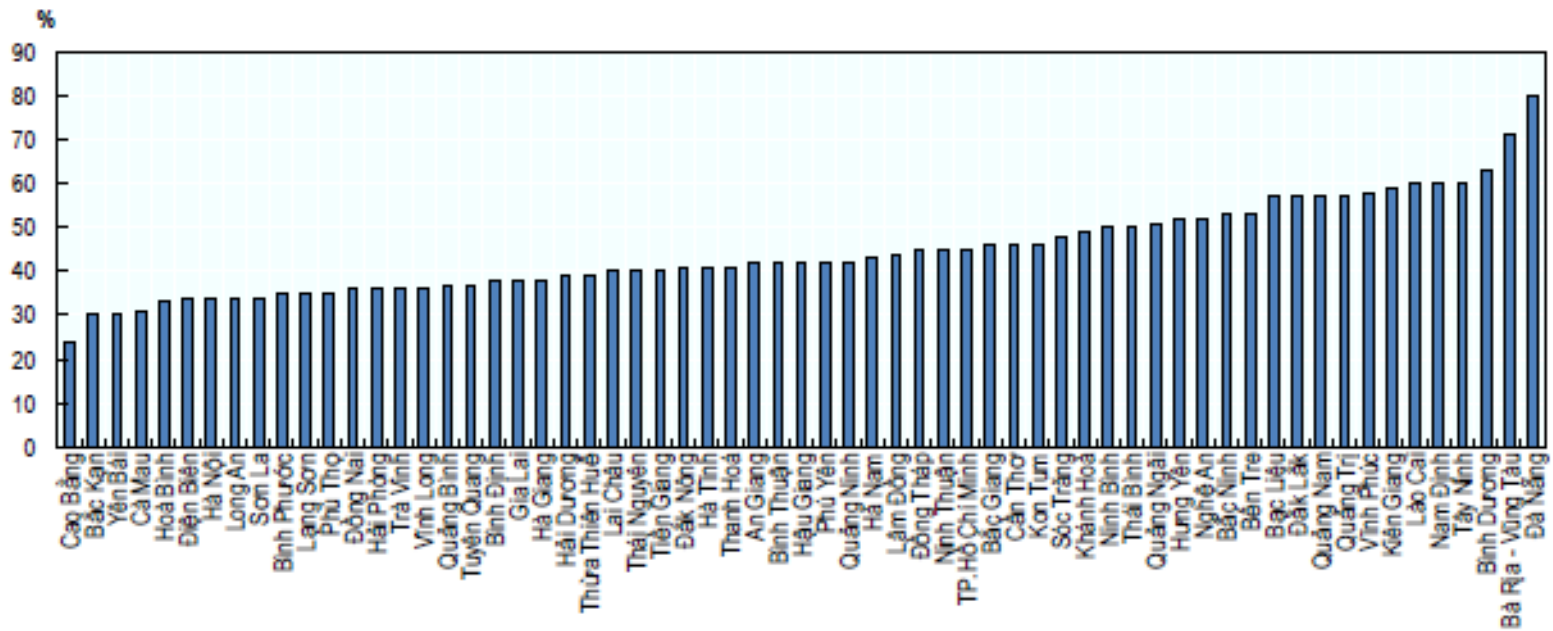
Note: Simple average values for the gross domestic product of all economies in each region are used.

Source: ADB (2016), Asia Bond Monitor, <https://www.adb.org/publications/series/asia-bond-monitor>.



# Businesses in Viet Nam perceive their access to local infrastructure as insufficient

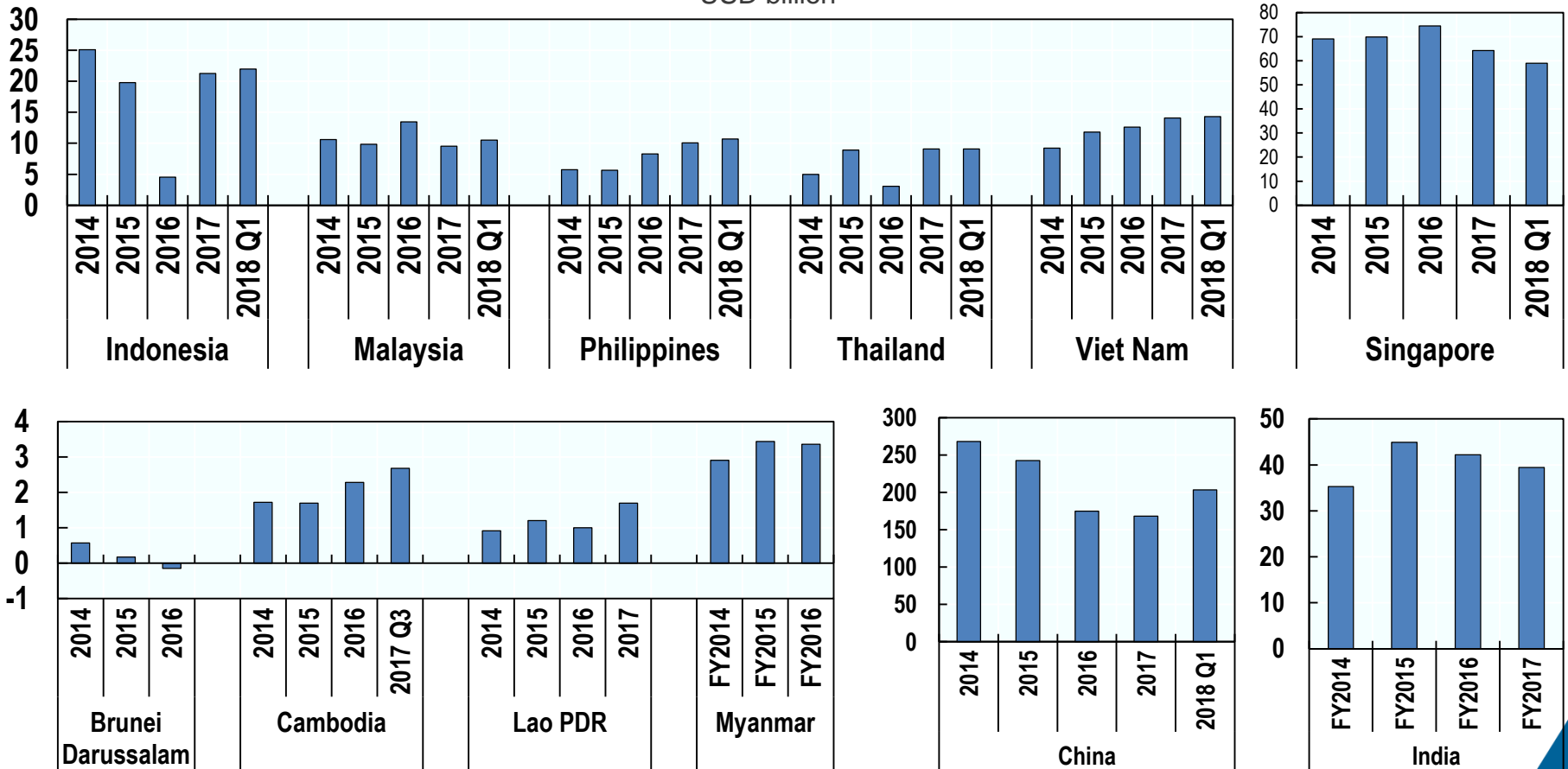
Percentage of business owners satisfied with transport infrastructure in Viet Nam by province, 2016





# Policy challenge 2: FDI

Foreign direct investment in Emerging Asian countries, 2014-18  
USD billion



Notes: Myanmar and India follow fiscal years ending in March the following year. Quarterly data are annualised (i.e. four-quarter sum as of the period indicated). The asset/liability principle is followed in the presentation of FDI data. FDI inflows data refer to foreign placements minus foreign withdrawals (Balance of Payments liability side).

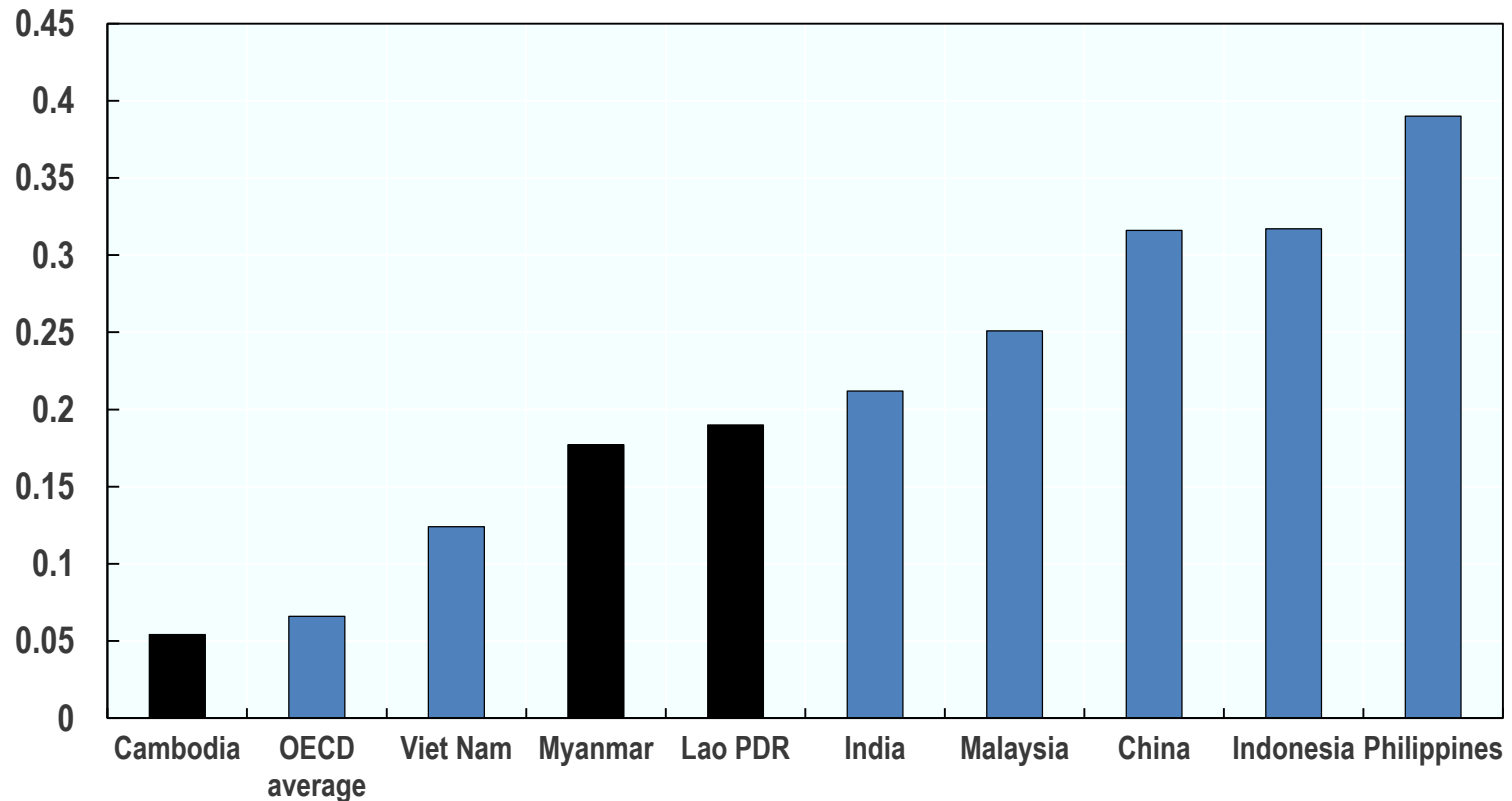
Source: OECD Development Centre calculations based on CEIC data, national sources and IMF (2018), International Financial Statistics (database).



# Supportive investment policies play a significant big role in attracting FDI

## OECD FDI Regulatory Restrictiveness Index scores in Emerging Asia, 2017

Open = 0, closed = 1

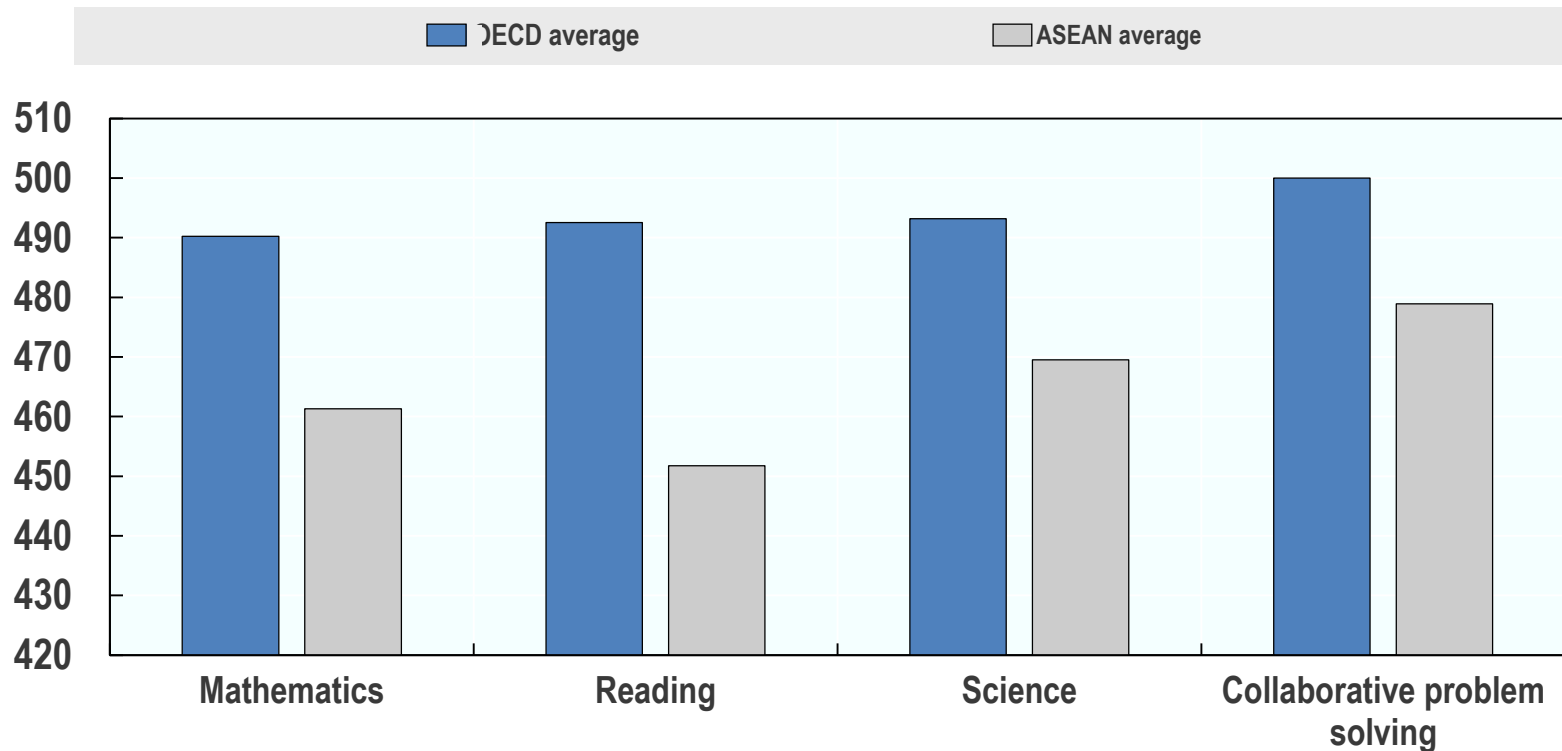


Source: OECD (2018), OECD FDI Regulatory Restrictiveness Index.



# Policy challenge 3: Human capital development

OECD PISA score in Southeast Asia and OECD countries, 2015



Note: ASEAN average is simple average of PISA scores of ASEAN participants which include Indonesia, Malaysia, Singapore, Thailand and Viet Nam for mathematics, reading and science. For collaborative problem solving, ASEAN average covers Malaysia, Singapore and Thailand.

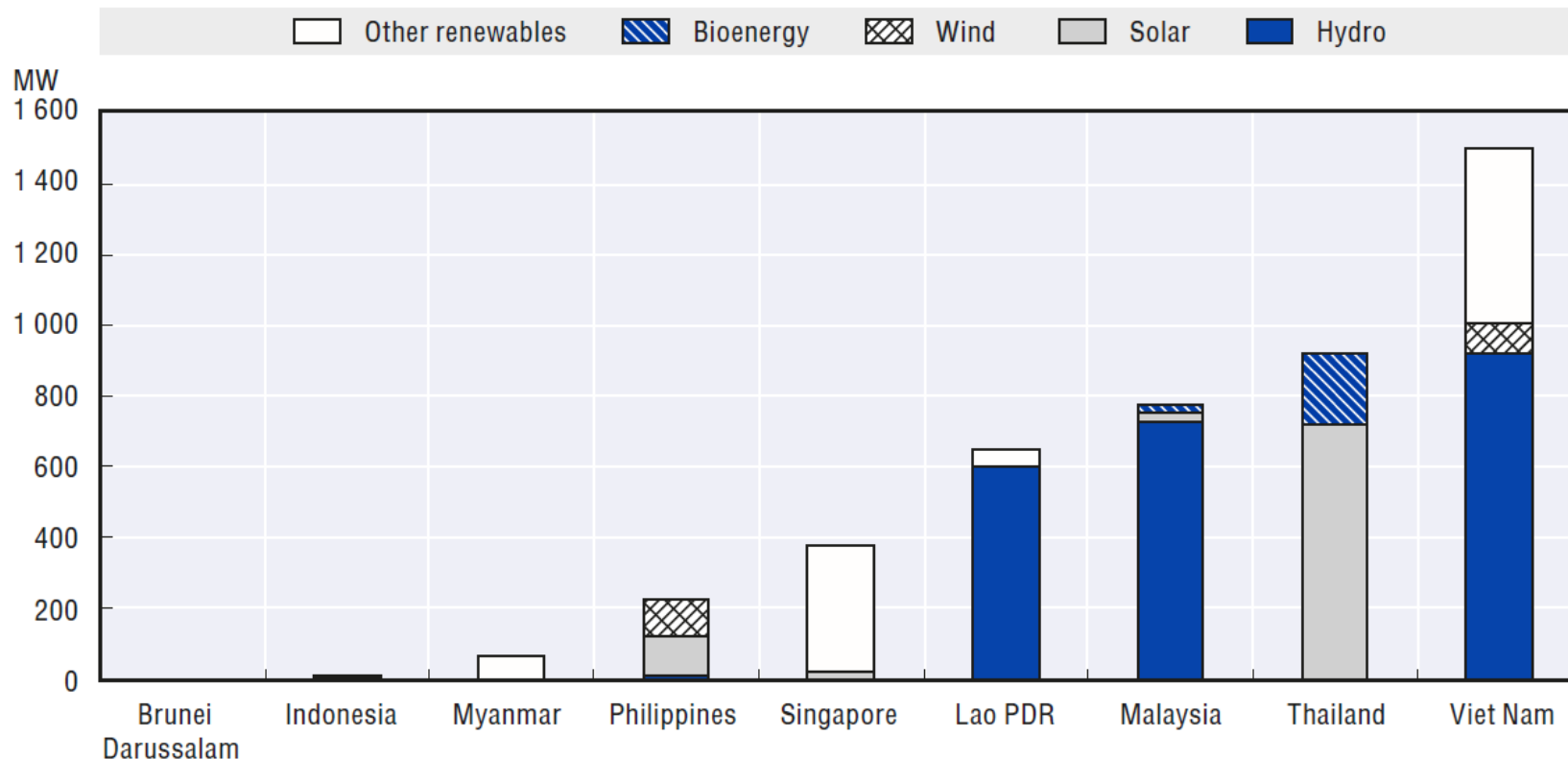
Source: OECD (2015), OECD Programme for International Student Assessment (PISA) (database).





# Policy challenge 4: Energy (renewable energy)

## New installed capacity of renewable energy by energy source in ASEAN in 2015

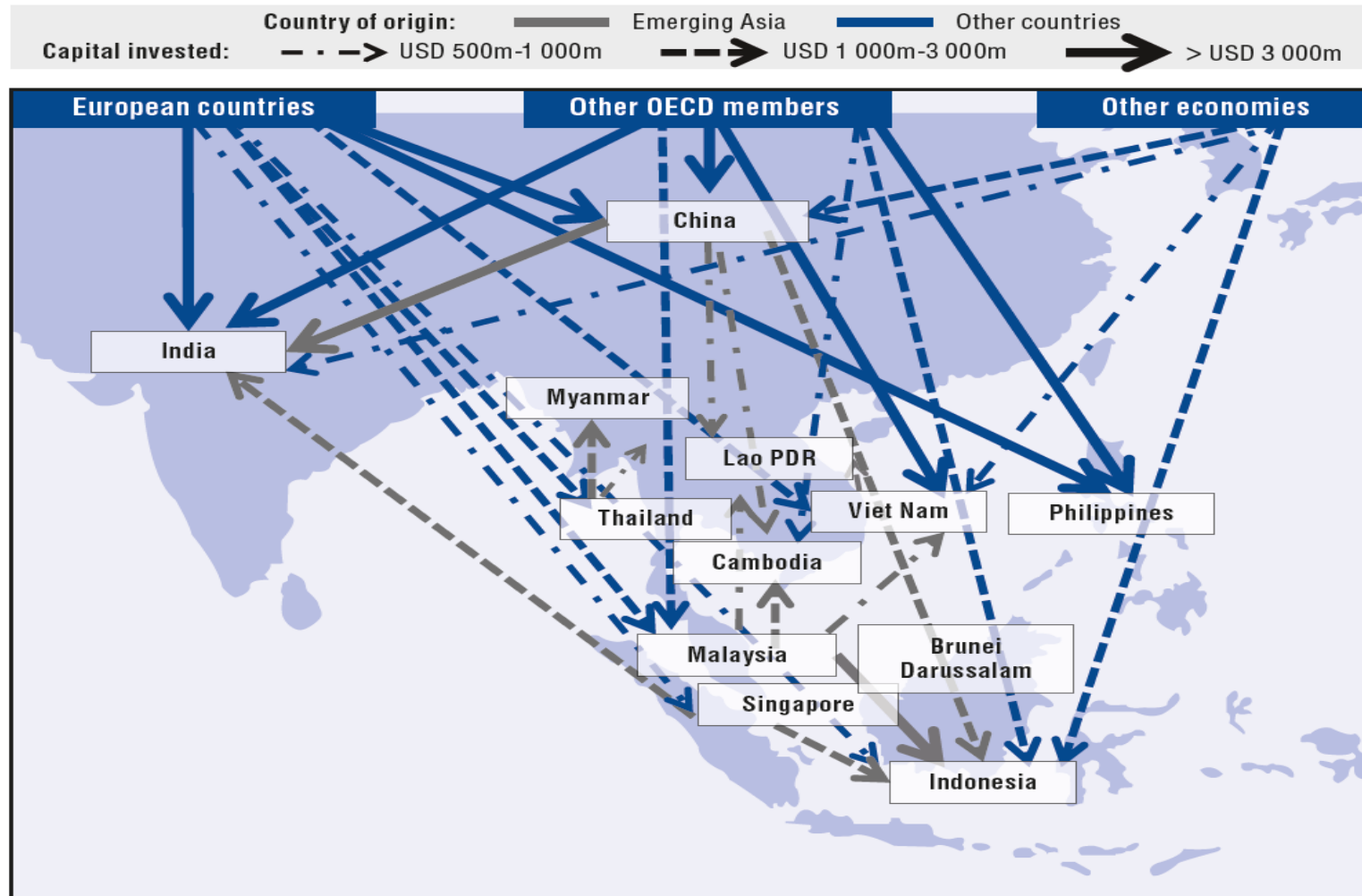


Note: Other renewables include waste, solid, other biofuels, biogas, geothermal.

Source: OECD Development Centre, based on IRENA, Renewable Capacity Statistics 2016, and Federal Ministry for Economic Affairs and Energy, Thailand Solar PV Policy Update.



# Greenfield FDI inflows in Emerging Asia's renewable energy sector, January 2003 – August 2016



Note: European countries: OECD Members which are members of the European Union; Norway and Switzerland.  
Other OECD Members: Australia; Canada; Israel; Japan; Mexico; New Zealand; Korea; Turkey; the United States.  
Other economies: Argentina; Chinese Taipei; Hong Kong, China; Russian Federation; Saudi Arabia.

Source: OECD Development Centre's calculations based on the dataset of the FDI Markets (2016),



## Renewable energy policy supports in Emerging Asia

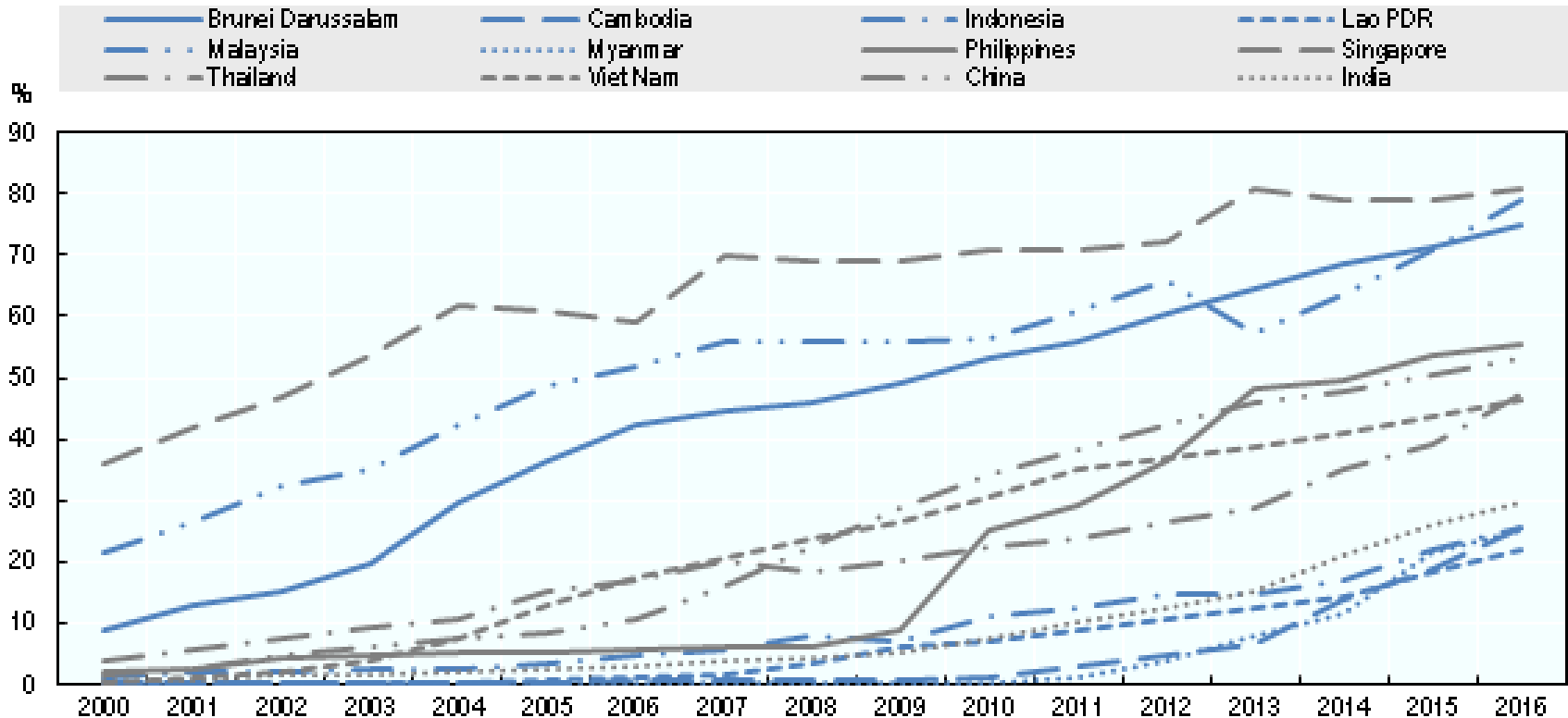
Country	Economic support policies and fiscal incentives							Regulatory support		
	Feed-in tariff	Capital subsidy, grant or rebate	Public investment, loans or grants	Tax relief	Net metering	Auction schemes	Carbon pricing	Renewable Portfolio Standard	RE Act/Law (REA)/(REL)	RE Action Plan / Roadmap
<b>ASEAN</b>										
Brunei Darussalam										
Cambodia										
Indonesia	✓	✓	✓	✓		✓			2014 Geothermal	Roadmap NRE 2015-2025
Lao PDR				✓						
Malaysia	✓	✓	✓	✓		✓			2011 REA	2010 FIT RE Action Plan
Myanmar				✓						
Philippines	✓	✓	✓	✓	✓			✓	2008 REA	NREP 2011-2030
Singapore		✓		✓						
Thailand	✓	✓	✓	✓	✓					AEDP 2015-2036
Viet Nam	✓	✓		✓						REDS 2015-2030
<b>China and India</b>										
China	✓	✓	✓	✓		✓	✓		2005 REL	13th FYP 2016-2020
India	✓	✓	✓	✓	✓	✓	✓			

Sources: OECD Development Centre, based on ASEAN Centre for Energy and REN21, Renewables 2016 Global Status Report, [www.ren21.net/status-of-renewables/global-status-report/](http://www.ren21.net/status-of-renewables/global-status-report/).



# Policy challenge 5: Digitalization

**Internet users in Emerging Asian countries, 2000-16**  
Percent of population



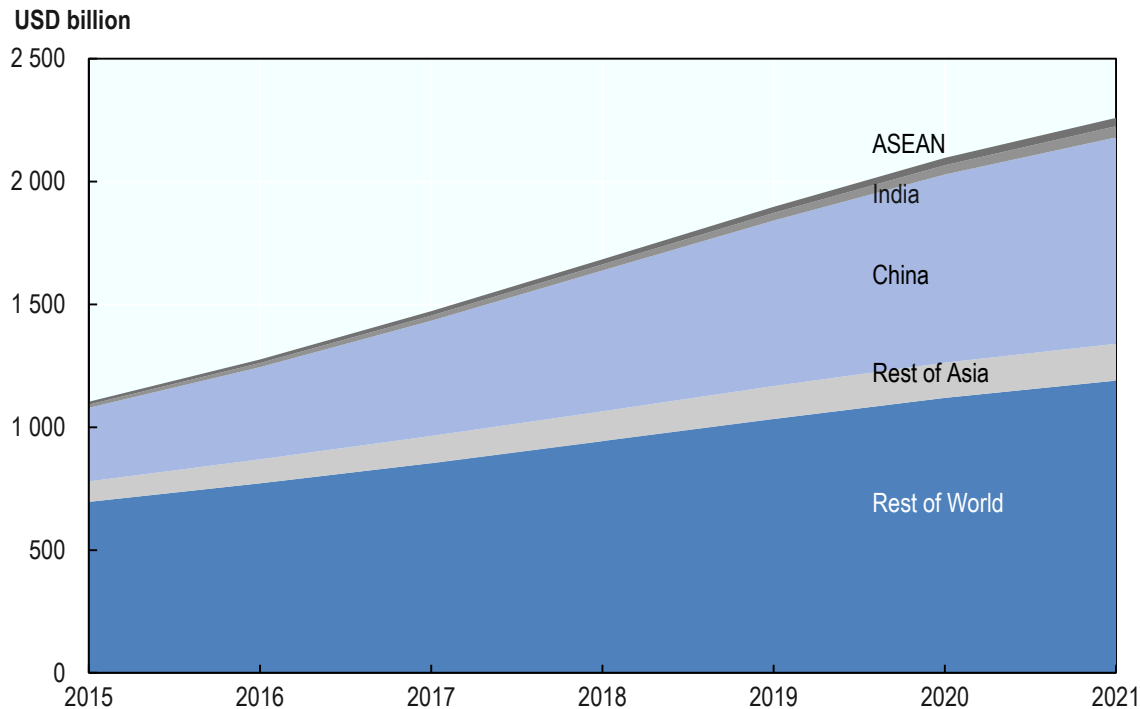
*Note:* Data on Internet use in Myanmar is not available for the year 2000.

*Source:* World Bank (2017), *World Development Indicators*, World Bank, Washington, D.C.



# E-commerce is expected to grow quickly in the region

## E-commerce market revenue 2015-21



- In 2015, Emerging Asia accounted for an estimated USD 320 billion in e-commerce revenue (29% of the global total)
- By 2021, it is estimated that the region will account for USD 900 billion in e-commerce revenue (41% of the global total)

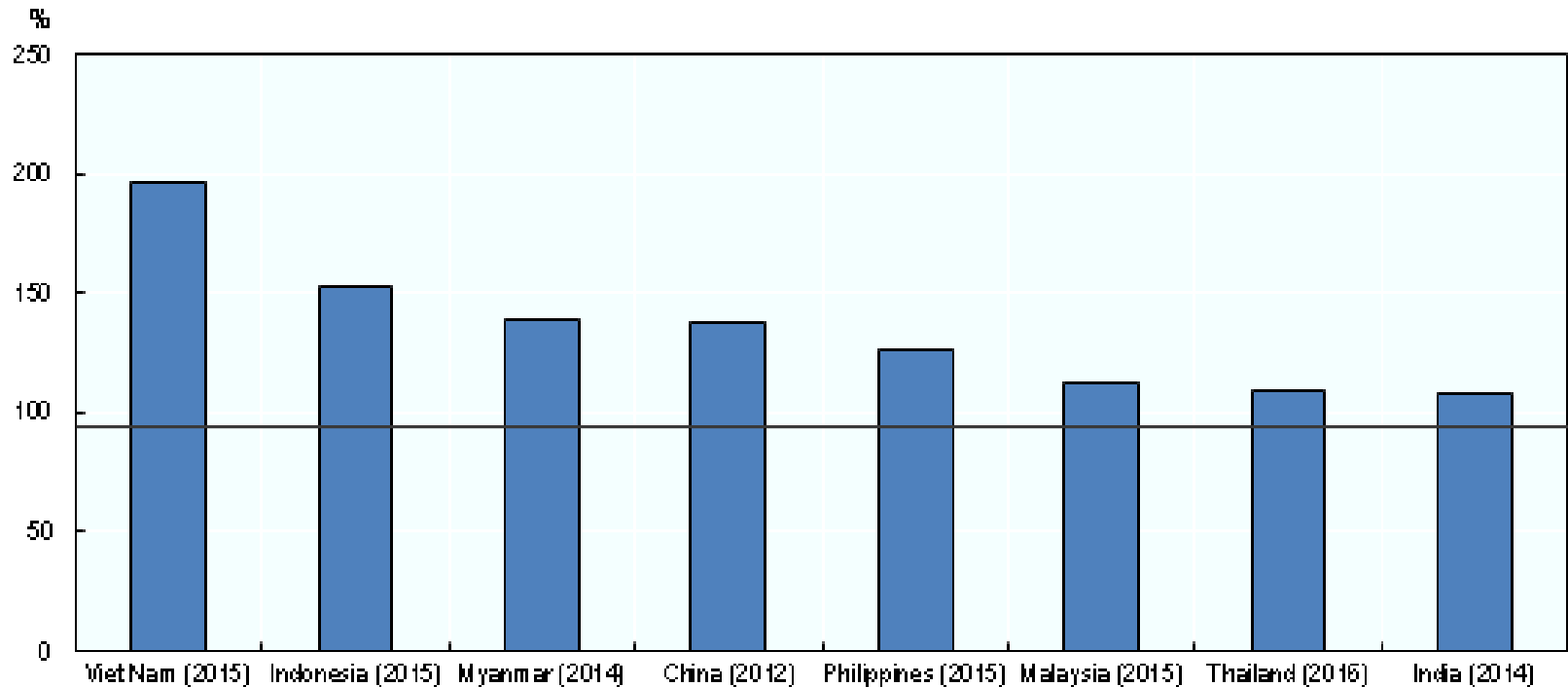
Source: OECD Development Centre's calculations based on data from Statista.



# Use of digital technologies affects aggregate and firm productivity

Average TFP in manufacturing firms with ICT use as a percent of average TFP in firms without ICT use

Percent



*Note:* Average TFP in firms with websites and/or using email is presented as a percentage of the average TFP of firms using neither technology, so 100% represents no difference in the average productivity of these two groups. Cambodia and Lao PDR were excluded from this analysis because they contained too few (fewer than 100) observations with sufficient data.

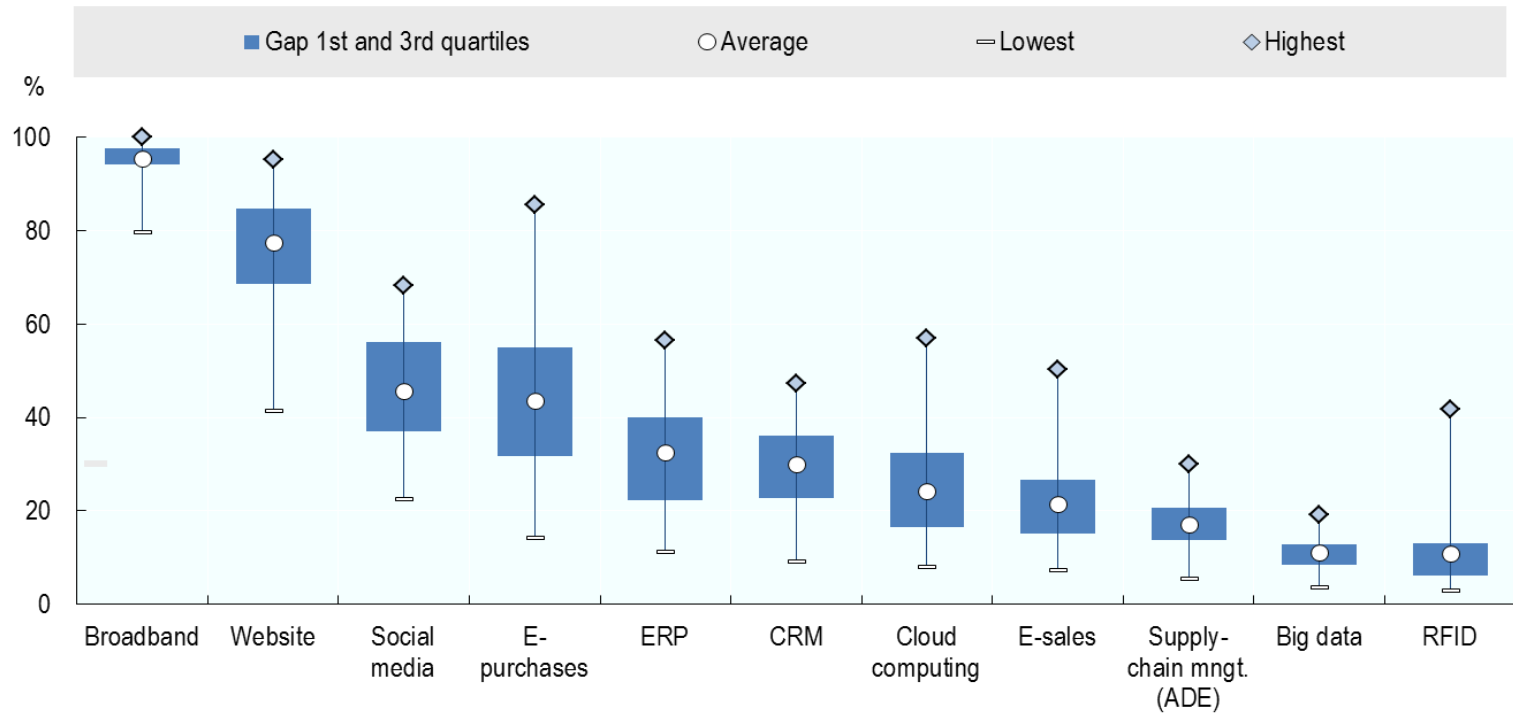
*Source:* OECD Development Centre's calculations, using World Bank (2017), *Enterprise Surveys*, World Bank, Washington, D.C.



# Firms need to make more effective use of ICT tools...

## Diffusion of selected ICT tools and activities in enterprises, 2016

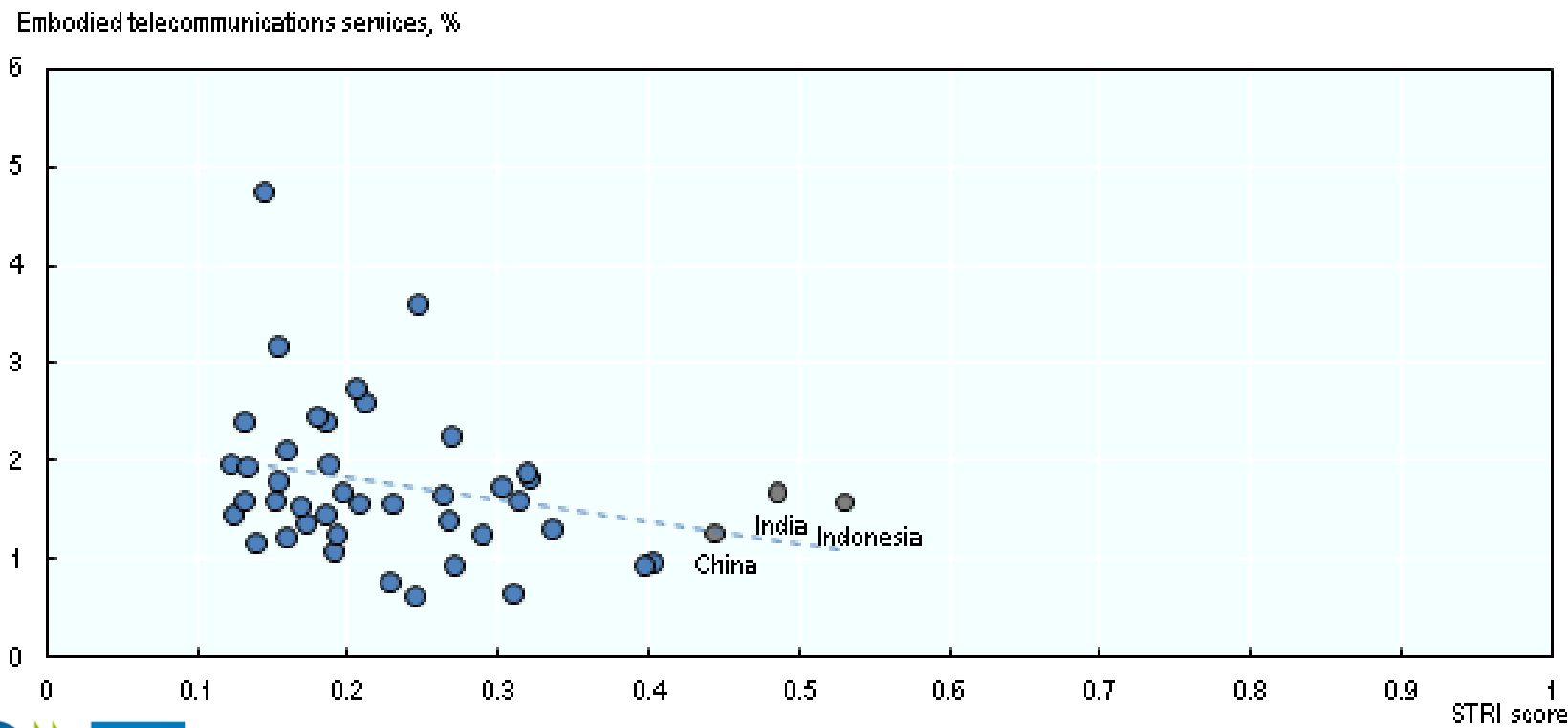
As a percentage of enterprises with ten or more employees



Source: OECD (2017), *OECD Digital Economy Outlook* OECD Publishing, Paris.

# Trade and investment reforms may be needed to boost digitalisation

## Policy restrictiveness in telecommunications and the proportion of telecommunications services embodied in gross exports, 2016

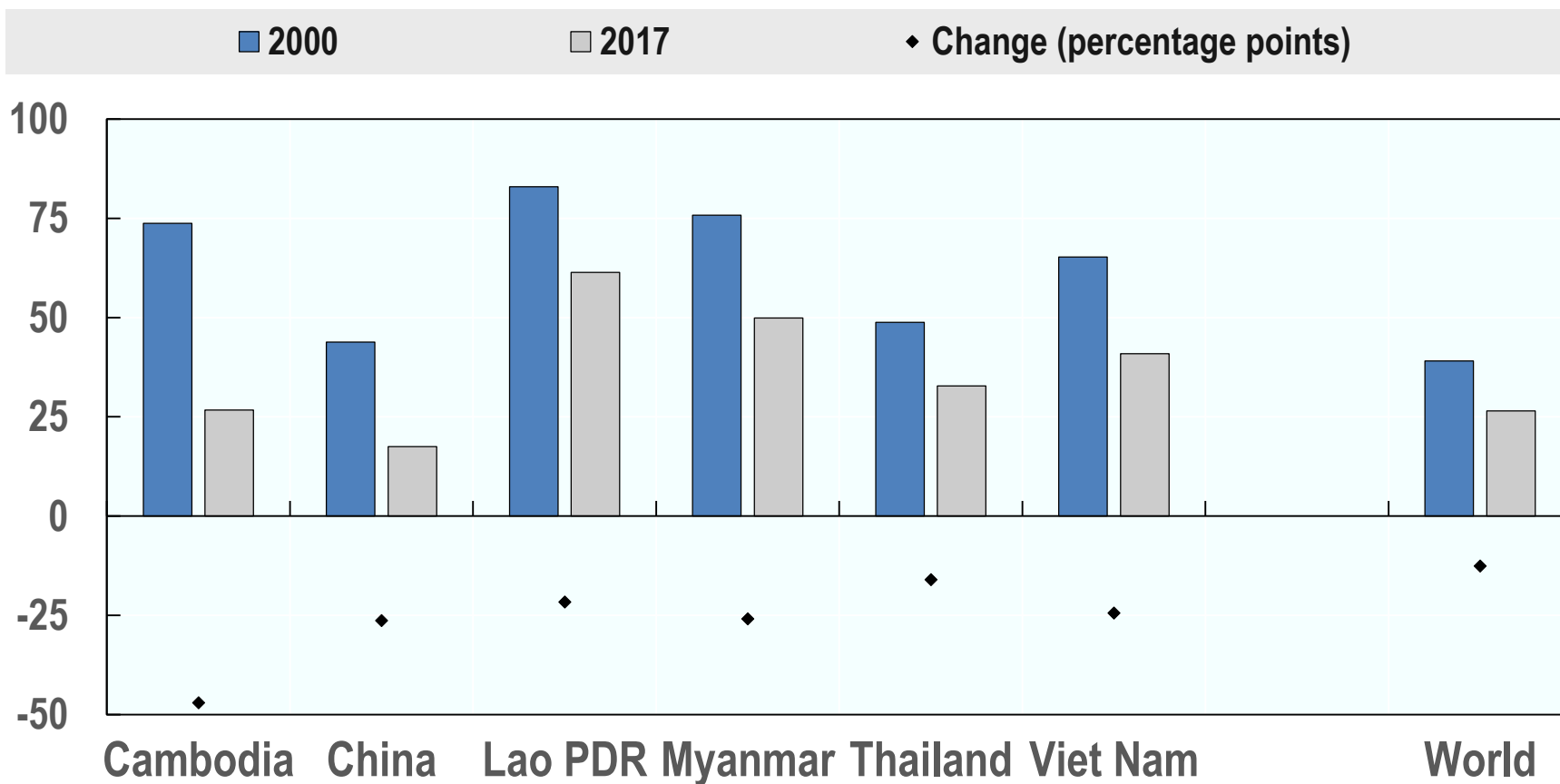






# Policy challenge 6: Agriculture

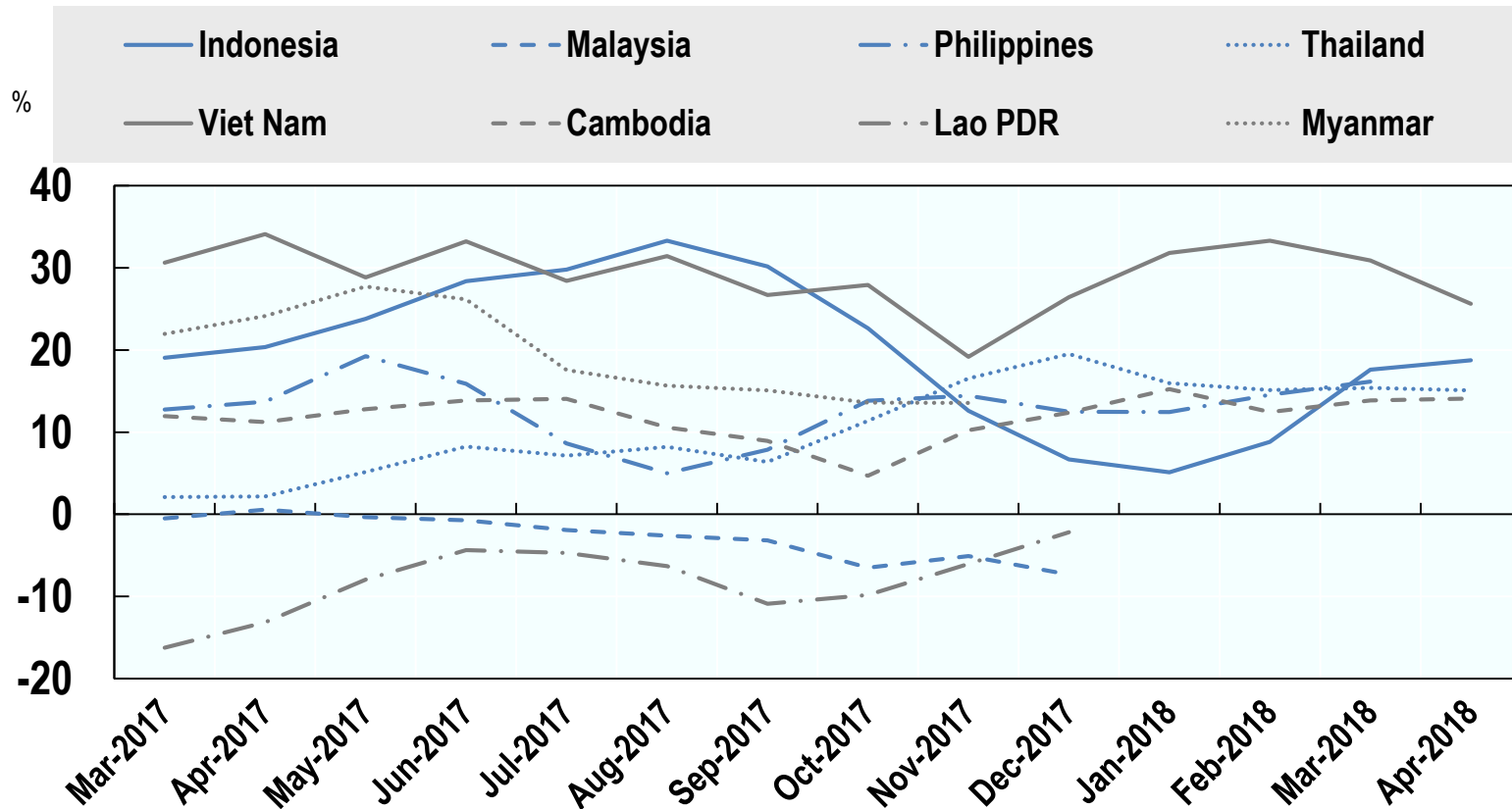
Employment in Agriculture, 2000 and 2017  
Percentage of Total Employment





# Policy challenges 7: Tourism

Tourist arrivals in ASEAN countries, 2017-18  
YOY growth, 3-month rolling sum



Source: OECD Development Centre calculations based on CEIC data.



THANK YOU FOR  
YOUR KIND  
ATTENTION