



ASEAN: Geopolitical & economic panorama

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Key Regional Themes for SE Asia

- China as a source of demand and competition
- ASEAN integration – Waiting for Godot?
- Aspiration for higher income, but can it work?

China – a friend or a foe?

- Demand from China
 - Barbell formation (commodities and capital goods)
- Competition from China is intense
 - Malaysia and Thailand have the most similar export structure
- Risk diversification
 - Indonesia and Vietnam stand to benefit

ASEAN – United we stand!

- USD 1.5trn economy, 600mn people
- FTA with China
- But... integration process has been slow
- 10 separate economies instead of 1 unit
- Even more doubts following troubles in Europe
- External forces (US, China) more likely to force integration than domestic desire

Aspire to earn more

- Everyone aspires to earn more in SE Asia
 - Vietnam – USD 2,100 by 2015
 - Malaysia – USD 15,000 by 2020
- Higher income implies higher cost base
- Work harder or work smarter?
- Need to stay competitive by innovation, not low cost

Indonesia

- All the stars are aligned at the moment
- Economy to be driven by commodities, domestic demand, infrastructure development
- Many expect return to investment grade in next 3-5 years
- But...
- What happens after the current administration?
- Can policy, economic reform be sustained beyond SBY?

Thailand

- No sustainable solution to political conflict in sight
- But economy remains resilient despite violent conflict
- Economic fundamentals robust to maintain financial stability
- Foreign investors staying put, but fresh investment to be limited
- Lack of government direction in economic development
 - Much needed to handle more competition from the region

Singapore

- Singapore at a cross road
 - Adjusting manufacturing policies as cost rises
 - Productivity drive
- Competition with Hong Kong
 - May not have the edge with China, but it has stronger links with ASEAN and India than HK
- Changing regulatory environment and focus on growth also benefits Singapore

Malaysia

- Lack of confidence in political and economic development
 - Can NEM/10th Malaysia Plan help?
 - Net outflow of capital
- Aspiration to become a mid-income country by 2020
 - In need for key industries (NKEAs)

Vietnam

- Great potential with typical developmental teething problems
- Abundant natural resources and labour
- Rise in consumerism and growing openness to trade
- Infrastructure spending to pick up
- Vulnerable to inflation and financial instability

Summary

- SE Asian economies have been promising for many years
 - Those who understand the market well will profit from it
- But political, religious and racial issues are arguably more complicated in SE Asia than in NE Asia
- Financial and economic fundamentals much more stable now than 10-15 years ago
- Some countries are better prepared for the new world order that lies ahead