



ASEAN FOCUS I

Strategic transformation is called for to uplift potential growth

- GDP growth in ASEAN-5 has averaged slightly lower over the past two decades this century. Rising global uncertainty and disruptions to multilateral trade would probably call for ASEAN to look inward to find new growth opportunities to uplift its potential growth from here.
- As the region emerged from the COVID-19 recession, strategic transformations are called for to uplift the region's potential growth but must be done together in a concerted manner. First, the region should capitalize and enforce the promulgation of ASEAN economic community (AEC) more into action. Second, the relatively more mature economy but with lack of space and labor supply like Singapore but capital-rich, could consider channelling through many FDIs that has poured into the country to its neighbouring countries. Third and finally, as the first two strategic transformations likely to bring about higher income to the ASEAN region, the rising middle class in the region would enjoy higher purchasing power which will in turn transform the region more into a great force of consumption hub.
- All in all, together as a group, ASEAN could cooperate on strategic transformations to turn their challenges into potentially new growth engine that will likely uplift their growth potential, better quality, and more sustainable in the future.

GDP growth in ASEAN-5 has averaged slightly lower over the past two decades this century. Coming out from the scars of the Asian Financial Crisis (AFC), growth in Indonesia averaged 5.2% in 2001-2010 thanks to the insurgent commodity boom in years after the AFC.

COVID-19 crisis has brought average growth in Indonesia down to 4.6%. Similarly, Malaysia's economic growth during the first decade of this century averaged higher at 4.6% but was lower during the ensuing second decade at 4.1%, no thanks to COVID-19-led recession. Even starker, average economic growth in Thailand halved in 2011-2020 period at 2.3% from 4.6% a decade earlier as the economy entered an aging society with its associated more subdued private consumption, only to be greeted by the great flooding incident in 2011 where growth flatlined to barely 1%. While in 2020, due to COVID-19 crisis, the Thai economy shrank by more than 6%. The Philippines' economy seemed to be more resilient with its average growth in the decade post the AFC of 4.8%, which slowed to only 4.7% in the following decade, most likely due to steady contribution of overseas remittances in sustaining household consumption domestically. Singapore's economic growth momentum also decelerated markedly from an average of close to 6% during 2001-2010 to just 3.2% in the ensuing decade. Understandably, as the most mature economy in the ASEAN region with productivity levels reaching elevated levels, it has since plateaued and potential growth ahead is likely to be at to a respectable range of 2-3%, which is not vastly different from its growth average in the past decade.



Rising global uncertainty and disruptive developments on multilateral trade fronts call for ASEAN to look inward to find new growth opportunities to uplift its potential growth from here. To do that, one has to understand that even each of these larger ASEAN members, the ASEAN-5 (i.e. Indonesia, Malaysia, the Philippines, Singapore and Thailand) is still at different stages of economic development. For example, Indonesia and the Philippines each has a relatively larger and younger population while Singapore, Thailand, and to a certain extent, Malaysia, are moving into a more mature and older population.

On trading fronts, Singapore and Malaysia are leading exporters of electronics while Thailand is one of the leading vehicles and automotive-parts manufacturers and exporters. Indonesia is blessed with vast and rich natural and mineral resources in the likes of palm oil, coal, rubber, nickel, bauxite, tin, just to name a few key ones. The Philippines has established a thriving business-process-outsourcing industry.

As the region emerged from the COVID-19 recession, strategic transformations are called for to uplift the region's potential growth but must be done together in a concerted manner. First, the region should capitalize and enforce the promulgation of ASEAN economic community (AEC) more into action.

More advanced and technologically equipped countries such as Singapore, Malaysia, and Thailand could consider investing in countries like Indonesia and the Philippines to turn them into a "new" manufacturing hub to increase the much needed labour productivity, which will in turn boost growth for all involved. This is especially so because the ASEAN region will not be spared from the global wave of transition towards cleaner energy in producing both goods and services in the future.

AEC can be optimized to facilitate such strategic transformation because it allows for the freer movement of goods, services, skilled labor, and capital. The intended positive end-result is to create a seamless regional market and production base in the region.

Second, the relatively more mature economy but with lack of space and labor supply like Singapore but capital-rich, could consider channelling through many of its FDI (foreign direct investment) flows that has poured into the country, and onward to its neighbouring country such as Indonesia and the Philippines. Thailand with its many companies involving in advanced vehicles and parts manufacturing capabilities could work together with partners in Indonesia to produce quality EV-based transportation that can be exported not only globally but to large consuming markets such as Indonesia itself.

Many down-streaming processes in Malaysia and Indonesia's key commodities and minerals require large capital outlays and by working with saver countries in the region, excess capital could be invested and deployed there with promising returns over the medium term.

Third, as the first two strategic transformations are likely to bring about higher income to the ASEAN region, the rising middle class in Indonesia and the Philippines would enjoy higher purchasing power which will in turn transform the region more into a great force of consumption hub. Even more so, these relatively younger and more digitally-savvy would transact faster and more efficiently via many of the growing e-commerce platforms, hastening the pace of domestic consumption and propel growth higher.

More importantly, these consumers are highly focused on increasingly higher value-added consumption such as leisure, wellness, and higher quality edibles. Furthermore, they are also more brand-aware and brand-conscious in choosing their consumption of goods and services.

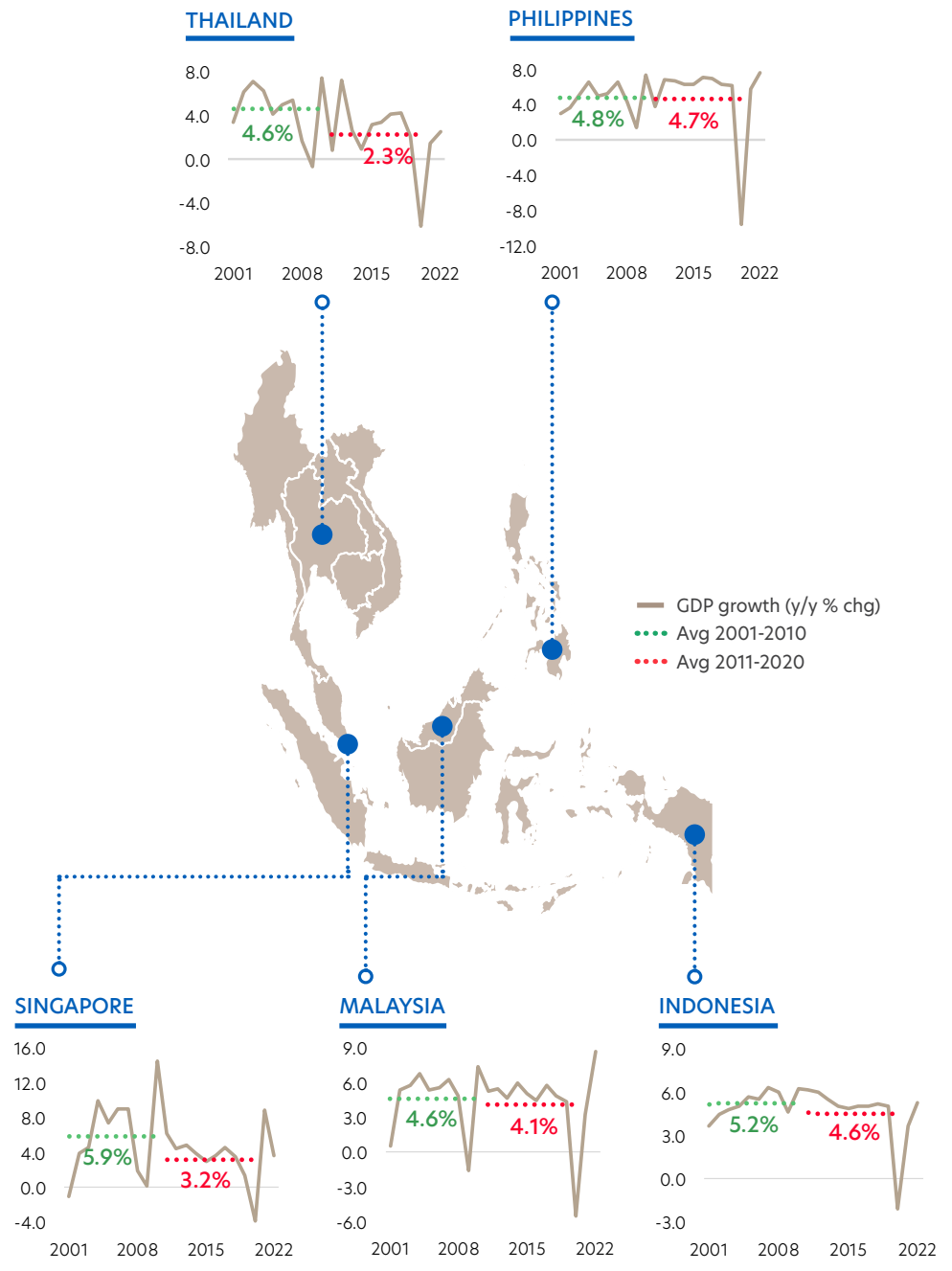
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Singapore and Thailand's growth averages have shifted lower as these economies maturing. Indonesia's growth averages over the past two decades also trended lower, similarly in Malaysia while Philippines' growth relatively held up steady



Source: National Statistics, Macrobond, UOB Global Economics & Markets Research



Chart 1: Key ASEAN mainstay sectors relooked with new strategies

Source: UNComtrade, UOB Global Economics & Markets Research

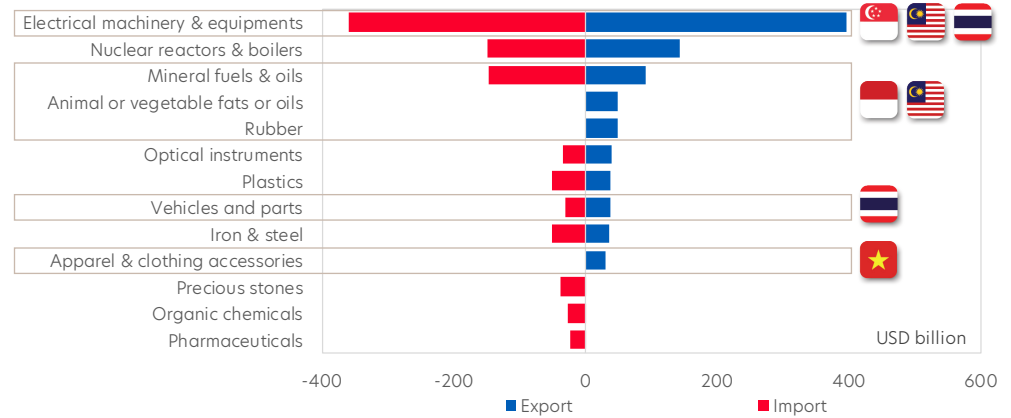


Chart 2: ASEAN middle-income consumer is expected to rise further

Source: Macrobond, UOB Global Economics & Markets Research

ASEAN Population Age 35 & Below (% of total) - Still Above 50% In 2030

