ECONOMIC OUTLOOK FOR SOUTHEAST ASIA, CHINA AND INDIA 2018: FOSTERING GROWTH THROUGH DIGITALISATION

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Outline

• Economic outlook and risks
  - 5 economic trends and 3 risks
• Thematic focus: Digitalization - Impact of digitalization on manufacturing and services
  - 6 main messages
• Economic outlook and risks
  - 5 economic trends and 3 risks
Growth in Emerging Asia will remain robust in 2017 and over 2018-22

<table>
<thead>
<tr>
<th>Year</th>
<th>ASEAN</th>
<th>2018-22 (average)</th>
<th>Emerging Asia</th>
<th>2018-22 (average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>4.8</td>
<td>5.2</td>
<td>6.4</td>
<td>6.3</td>
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<tr>
<td>2017</td>
<td>5.3</td>
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<td>6.5</td>
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</tbody>
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Note: The cut-off date is February 14, 2018. ASEAN and Emerging Asia are weighted average of the individual economies. Data of India, Lao PDR and Myanmar follow fiscal years. 2017 data are actual data when available. If data are not yet available, the projections based on the OECD Economic Outlook 102 database and MPF-2018 (Medium-term Projection Framework) as of 31 October 2017 are used.

Source: OECD Development Centre, MPF-2018
Overview: Growth in the region

<table>
<thead>
<tr>
<th>Regional Group</th>
<th>2016</th>
<th>2017</th>
<th>2018-22 (average)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASEAN-5 countries</strong></td>
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</tr>
<tr>
<td>Indonesia</td>
<td>5.0</td>
<td>5.1</td>
<td>5.4</td>
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<tr>
<td>Malaysia</td>
<td>4.2</td>
<td>5.9</td>
<td>4.9</td>
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<tr>
<td>Philippines</td>
<td>6.9</td>
<td>6.7</td>
<td>6.4</td>
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<td>Thailand</td>
<td>3.2</td>
<td>3.8 p</td>
<td>3.6</td>
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<tr>
<td>Viet Nam</td>
<td>6.2</td>
<td>6.8</td>
<td>6.2</td>
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<td><strong>Brunei Darussalam and Singapore</strong></td>
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<tr>
<td>Brunei Darussalam</td>
<td>-2.5</td>
<td>0.0 p</td>
<td>0.5</td>
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<tr>
<td>Singapore</td>
<td>2.4</td>
<td>3.2 p</td>
<td>2.3</td>
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<td><strong>CLM countries</strong></td>
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<tr>
<td>Cambodia</td>
<td>6.9</td>
<td>7.1 p</td>
<td>7.2</td>
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<tr>
<td>Lao PDR</td>
<td>7.0</td>
<td>6.9 p</td>
<td>7.1</td>
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<tr>
<td>Myanmar</td>
<td>5.9</td>
<td>7.2 p</td>
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<td><strong>China and India</strong></td>
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<tr>
<td>China</td>
<td>6.7</td>
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<td>India</td>
<td>7.1</td>
<td>6.7 p</td>
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<tr>
<td>Average of ASEAN-10</td>
<td>4.8</td>
<td>5.3</td>
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<tr>
<td>Average of Emerging Asia</td>
<td>6.4</td>
<td>6.5</td>
<td>6.3</td>
</tr>
</tbody>
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Note: Data are as of February 14, 2018. ASEAN and Emerging Asia are weighted average of the individual economies. Data of India, Lao PDR and Myanmar follow fiscal years. 2017 data of some countries are actual data if already available. If not, projections based on the OECD Economic Outlook 102 database and MPF-2018 (Medium-term Projection Framework) as of 31 October 2017 are used. "p" denotes projected values.

Trend 1: Private consumption and exports will anchor growth

Private consumption and Gross exports (real prices) YOY growth in Indonesia, Malaysia, Philippines and Thailand, 2016-17

Source: OECD Development Centre calculations based on CEIC and national sources
**Trend 2: Industrial production indices largely steady; Consumer confidence improving**

**Industrial Production Index in ASEAN-5, YTD YOY growth, 2016-17**

**Consumer Confidence Index in Indonesia, Malaysia, Philippines and Thailand, 2016-17**

Source: OECD Development Centre calculations based on CEIC and national sources.
**Trend 3: Inflation trend is mixed; Price pressures are building up**

<table>
<thead>
<tr>
<th>Country</th>
<th>Headline</th>
<th>Food</th>
<th>Core</th>
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<tbody>
<tr>
<td>Indonesia</td>
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<td>India</td>
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</table>

Note: Data are as of 14 February 2018.
Source: OECD Development Centre calculations based on CEIC and national sources.
Trend 4: Monetary policy stays accommodative

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: Cambodia: November 2017; Brunei Darussalam, India, Lao PDR, Malaysia, Myanmar and Singapore: December 2017. Data of all other countries are as of January 2018.

Source: OECD Development Centre calculations based on CEIC and national sources
**Trend 5**: External uncertainties temper optimism in capital markets

Stock market indices in Emerging Asia (Dec 31, 2016=100), 2016-17

Credit default swap in Emerging Asia (5-year senior), mid-spread basis points

Trend 6: Expansionary fiscal policy looks to continue in the near-term

Tax-to-GDP ratios in Asia, 2015

General government fiscal balance, % of GDP

Note: General government balances data are not necessarily comparable to the budget balances published by national governments.

Source: OECD Development Centre MPF-2018 and OECD (2017), Revenue Statistics in Asian Countries
Monetary normalisation in advanced economies can impact Emerging Asia through several channels, namely: interest rate, capital movement, real economy and trade.
Risk 2: Rapid rise in private sector debt requires close attention

Credit to private non-financial sector, percentage of GDP

Change from 2010 to 2017 Q1 (or latest)

Credit to private non-financial sector, percentage of GDP

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

Note: Latest data of Viet Nam as of 2015.

Sources: OECD Development Centre calculations based on the Bank for International Settlements Credit to the Non-financial Sector database and World Bank World Development Indicators database.
Risk 3: Trade restrictions globally coupled by limited progress in regional trade agreements

• Regional Comprehensive Economic Partnership (RCEP) has the potential to become a very inclusive agreement with a balanced agenda for growth
• However, challenges remain in some policy areas, such as SOEs, government procurement and environment issues.
Thematic focus: Digitalization

Impact of digitalization on manufacturing and services

- 6 main messages
Message 1: ICT and Internet use have grown rapidly

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.
Message 2: Information technologies change how firms operate

Shares of firms with websites or using email to communicate with clients or suppliers, by sector

Shares of firms with websites or using email to communicate with clients or suppliers, by exporting activity

Message 3: Digitalisation is affecting trade trends

Computer and telecommunications services embodied in exports, 2000 and 2011

Percent of gross exports in manufacturing

Message 4: 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

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.

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

Message 5: 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

Message 6: Investments in ICT infrastructure and skills are needed for inclusive development

Number of secure Internet servers in Emerging Asia and the percentage of ICT services in the value-added component of gross manufacturing exports, 2011

important issues of technology uptake and use

Addressing digital divides ...

Gap in Internet use by educational attainment, 2016
As a percentage of enterprises in each employment size class

Countries in the region face different priorities in developing the digital economy

- China holds significant potential, but many of its firms could increase their degree of participation in the digital economy.

- Investment in skills and infrastructure are among priorities for middle-income Emerging Asian countries like Indonesia and the Philippines.

- Gaps in ICT infrastructure tend to be greatest in the lower-income CLM countries.
Conclusion- Outlook 2018 edition

- **Growth**: Near- and Medium-term prospects in ASEAN seen to remain robust on resilient domestic demand and trade recovery. However, maintaining robust growth momentum requires careful attention to several downside risks.

- **Digitalisation**: Digitalisation drives new ways of doing business and affects trade and productivity. Broad and responsive strategies will be needed to foster inclusive growth through digitalisation.
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