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ASEAN Economic Outlook 2019: Changing Skies?

By Amalina Anuar

SYNOPSIS

As 2019 passes the halfway mark, with the end of the 34th ASEAN Summit in Bangkok, the regional grouping faces intensified risks on the trade front. Boosting the bloc's economic resilience in response will require not just new plans, but solid implementation of them.

COMMENTARY

DESPITE THE turbulence rocking the global economy, ASEAN has fared relatively well so far. In the first quarter of 2019, Indonesia, Malaysia and Vietnam recorded [5.1%](#), [4.5%](#) and [6.8%](#) growth respectively.

But as some risks dim and others intensify, it remains to be seen whether ASEAN can continue to show a stable economic performance. In January, [two of ASEAN's biggest headwinds](#) were the US-China trade war and interest rate hikes in developed economies. These have heightened global uncertainties.

Out of the Frying Pan

Since then, escalating trade and geo-economic tensions have resulted in an even more uncertain investment climate. Consequently, however, mounting tensions have also put a pause on interest rate hikes as the US [Federal Reserve](#) and [European Central Bank](#) aim to support markets.

Interest rate hikes in developed economies can trigger capital flight from Southeast Asia, wherein investors pull out to chase higher returns elsewhere. However, such prospects are dimmer at this point. With the risk of capital flight being dialled down

due to lower interest rates elsewhere, ASEAN policymakers also have more room to ease their own interest rates in turn, allowing for boosted lending and growth.

But while headwinds have weakened in some aspects, they have intensified in others. No end for the trade war is yet in sight. Cautious optimism is necessary: US-China talks have since [resumed](#) at June's G20 Osaka meeting, after breaking down just a month earlier.

Yet geostrategic considerations and conflicts over China's state capitalism model still loom over the fate of these discussions. Even if negotiations succeed, those same concerns could throw the sustainability of a trade truce into question.

Into the Fire?

Most, if not all, ASEAN members have been caught in the fray. Our global trade analysis exercise, which projects the impact of trade shocks on GDP, shows that these economies will see a neutral and/or positive impact from the US-China trade tensions.

Due to the trade diversion effect in which businesses relocate their manufacturing facilities and activities from China to other low-cost countries, Vietnam and Cambodia in particular could take advantage of these developments.

However, there are caveats. Focusing on the impact of tariffs on trade alone overlooks the dampening effects market panic and uncertainty have had on investment.

Plus, trade tensions may yet spread. While further tariffs to the tune of [25%](#) on another USD300 billion worth of Chinese imports are threatened, Sino-US trade only accounts for 3% of global trade.

The Bigger Picture

Tariffs on trade in automobiles, which the Trump administration has so far [delayed](#), would send larger shocks through the global economy since trade in cars constitutes [8% of global trade](#). Given that global value chains for automobiles are spread out across many economies in several regions, including ASEAN and the Asia-Pacific, the fallout of this worst case scenario, especially in stymied investments, will be far-reaching if realised.

The effects of long-term US-China economic decoupling, as both major powers recalibrate their relations, also add more nuance to the bigger picture. Actions to sever the connectivity and interdependence undergirding globalisation could have several ramifications.

For example, global supply chains, which are being reoriented even now, could be divided between different economic spheres. Blocking exchanges of goods, services, people and ideas also undermines trade, innovation, as well as research and development. This may not bode well as the world transitions further into a hyper-connected digital age.

Building Bulwarks

As trade with external markets stumble, it is increasingly important for ASEAN to tap on servicing intra-regional markets and Asia's rising middle class. Additionally, it must strengthen its position as an attractive single market.

Singapore as 2018 ASEAN Chair provided the bloc with stronger footing, especially vis-à-vis trade. For instance, Singapore's work in finalising several chapters of the Regional Comprehensive Economic Partnership (RCEP) expedited talks for the ASEAN-led mega-free trade agreement that includes emerging economic powerhouses China and India.

Meanwhile, the ASEAN e-Commerce Agreement signed last year should facilitate growth in ASEAN's digital economy, valued at USD240 billion by [2025](#). [Other](#) trade-facilitative measures were also notched under ASEAN's belt last year, including the launch of the ASEAN Single Window for faster customs clearance regionally.

Building upon these foundations is key. Notably, Thailand as this year's ASEAN Chair has made concluding the Digital Integration Framework Action Plan and launching the ASEAN Innovation Roadmap, among other things, part of its deliverables.

This should augur well for ASEAN economic growth and resilience, if Thailand can deliver on these agendas despite the uncertainty roiling its domestic politics. The Thai Cabinet has yet to be selected. Without an experienced hand helming the Ministry of Foreign Affairs, Bangkok may have an even harder time organising November's ASEAN Summit and pushing forth the ASEAN agenda before the year's end.

Walking the Walk

Implementation then, whether for new initiatives or existing agendas, remains ASEAN's biggest hurdle.

Work still needs to be done in reducing the number of non-tariff barriers to facilitate trade and investment in the ASEAN Economic Community. Whether RCEP parties can conclude the negotiations this year as intended also remains to be seen, considering that no new chapters have been concluded due to alleged [hostage taking](#). Some chapters are close to being settled, but those conclusions have been blocked by some members unless they receive concessions on other disciplines.

Furthermore, while these agendas are already challenging, they become arguably more so amidst geostrategic disruption of trade and business as usual. The ASEAN Indo-Pacific framework recently coined at the 34th ASEAN Summit sends a positive signal vis-à-vis commitments to neutrality.

Even if the strong continue doing what they will, putting this framework into practice and ensuring that bilateral relations with major powers reinforce this neutrality will be essential to ASEAN's continued efforts at determining its own destiny.

Time, however, is of the essence. Strengthening ASEAN resilience to protect against risks, and boosting its economic appeal, must happen sooner rather than later. To that end, ASEAN and its partners must not only continue and design old and new plans respectively, but realise them to a greater extent too.

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