



ECONOMIC OUTLOOK FOR SOUTHEAST ASIA, CHINA AND INDIA 2018 AND UPDATE:

DIGITALISATION

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July 2018, PIDS, Manila, Philippines



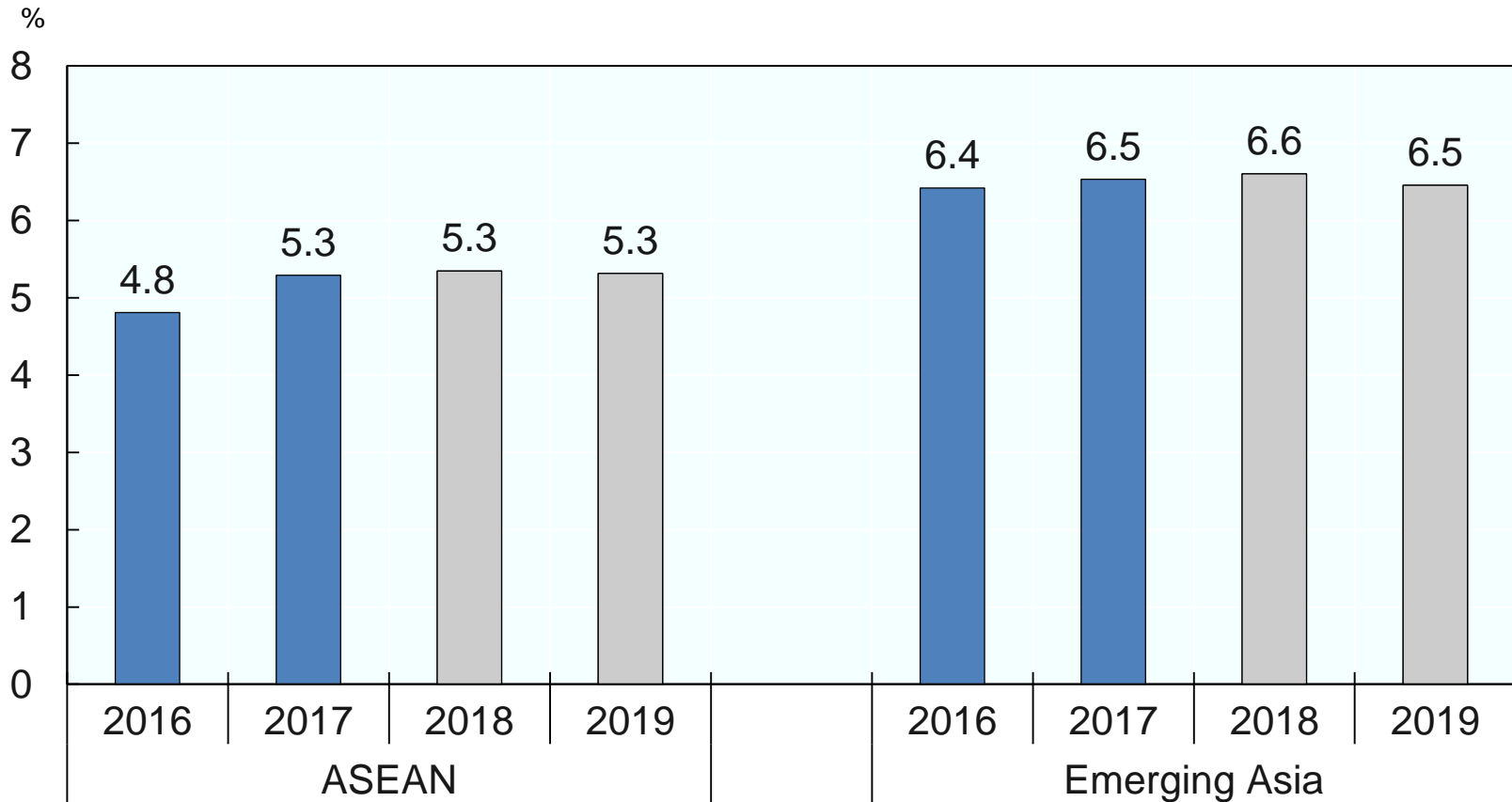


Outline

- **Economic outlook and risks**
 - *6 economic trends and 3 challenges*
- **Thematic focus: Digitalisation**
 - **November full report - *Impact of digitalisation on manufacturing and services sector***
 - **July Update report - *E-commerce***



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
ASEAN-5 countries				
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
Brunei Darussalam and Singapore				
Brunei Darussalam	-2.5	1.3	1.5	2.1
Singapore	2.4	3.6	3.5	3.0
CLM countries				
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
China and India				
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

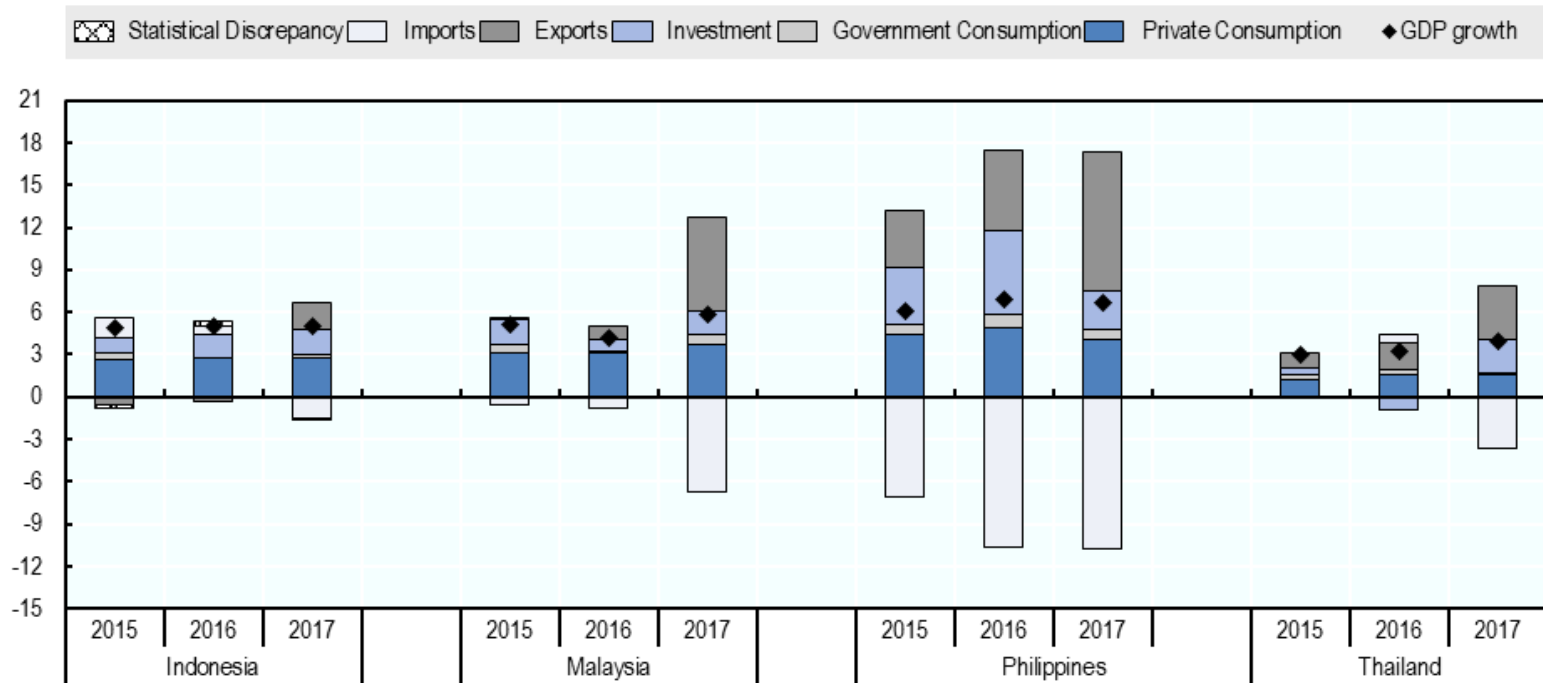
Notes: The cut-off date for data used is 18 June 2018. ASEAN and Emerging Asia growth rates are the weighted averages of the individual economies subsumed. Cambodia and Myanmar's 2017 data are preliminary estimates. The data of India and Myanmar follow fiscal years. For Myanmar, 2018 refers to the interim 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).

Source: OECD Development Centre, Medium-term Projection Framework (MPF-2018)



Trend 1: Private spending, investment and exports mainly drove GDP growth

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



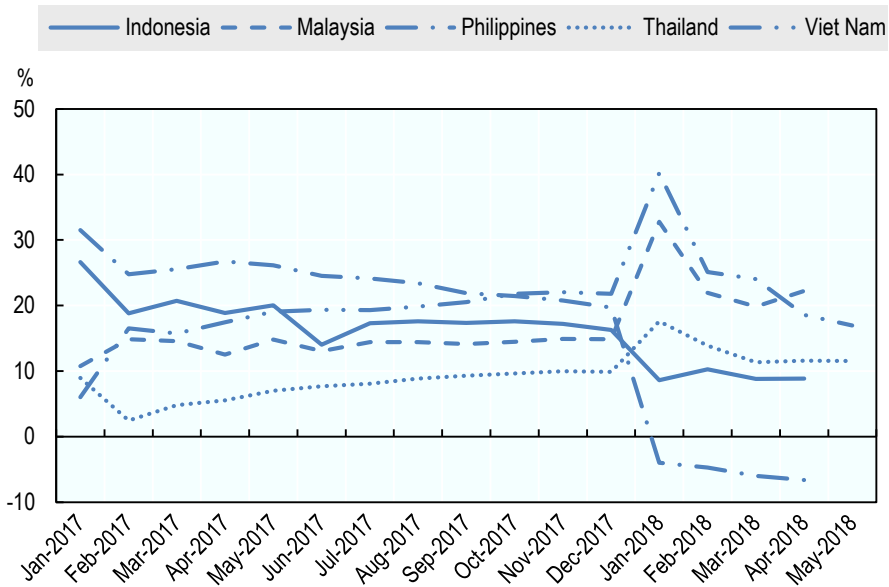
Notes: Thailand uses chain volume measures. The sum of contributions to growth is not necessarily equal to GDP growth. Viet Nam has not yet published the demand-side components of GDP.

Source: OECD Development Centre calculations based on CEIC data.



Trend 2: Export growth is moderating; Consumer confidence improving

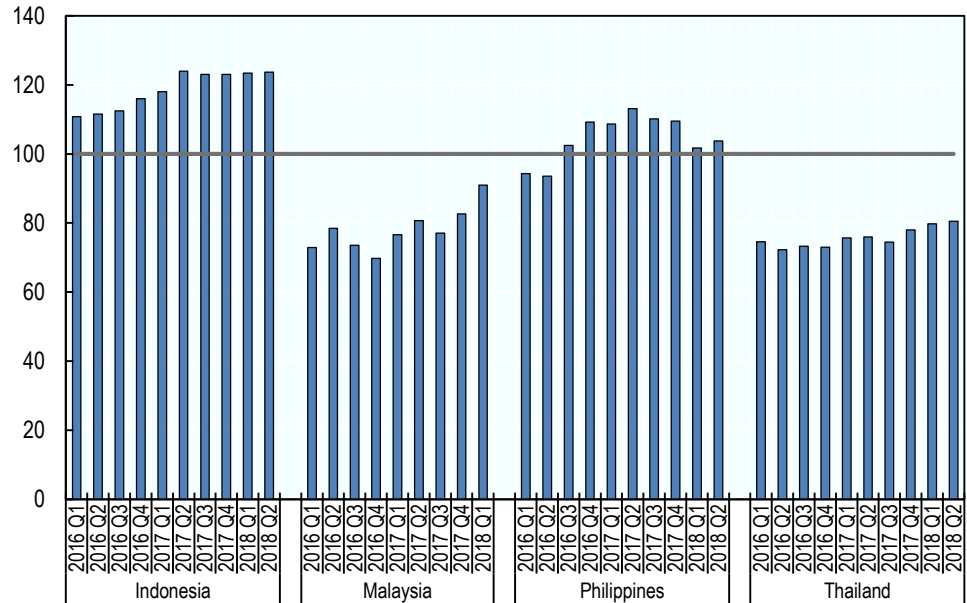
Goods exports value of ASEAN-5 countries, 2017-18
YOY YTD growth



Note: Growth rates were computed based on levels data in US dollars.

Source: OECD Development Centre calculations based on CEIC.

Consumer Confidence Indices in Indonesia, Malaysia, Philippines and Thailand, 2016-18

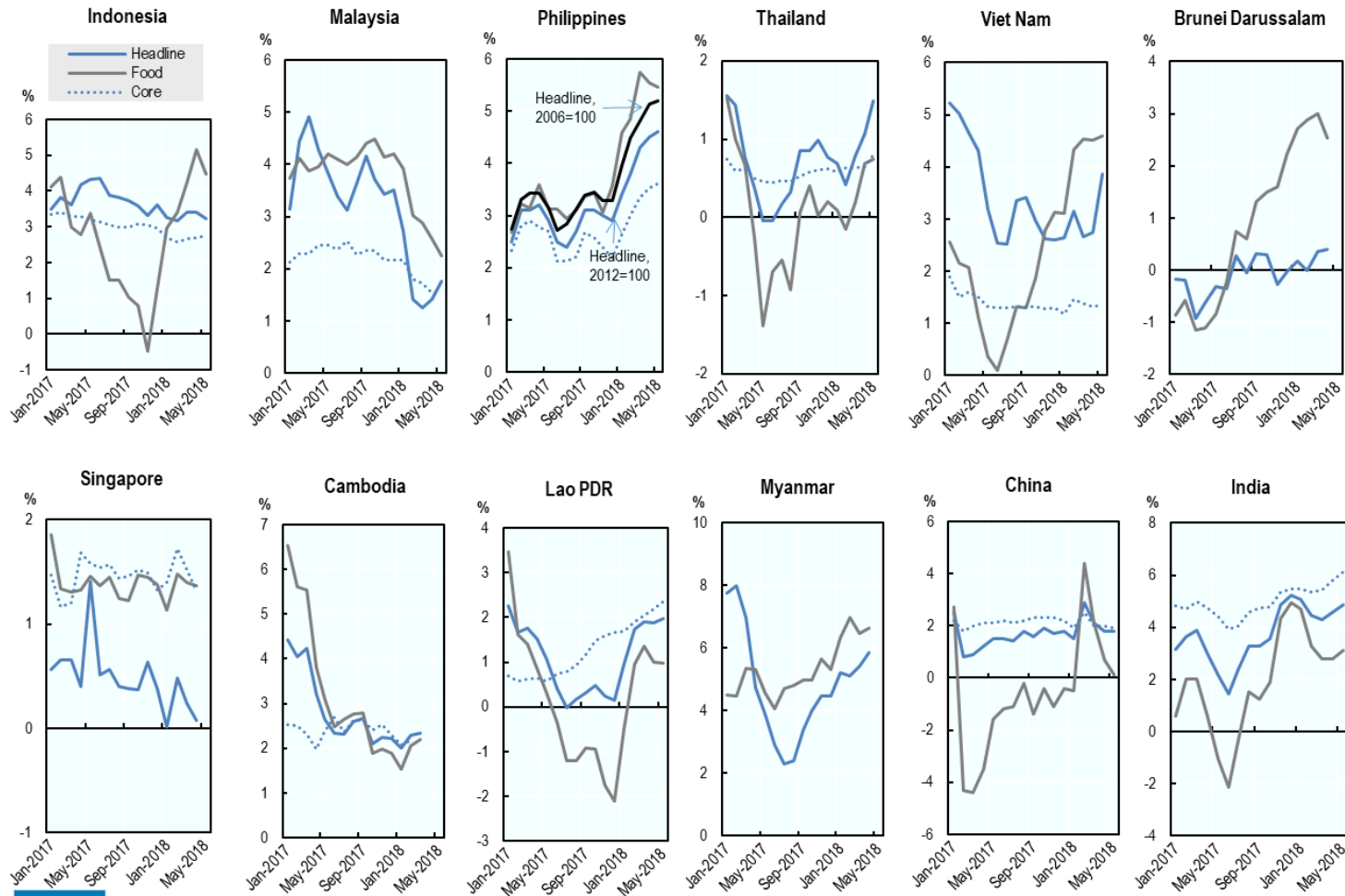


Note: All indices are adjusted to set 100 as neutral confidence point. Data of Indonesia and Thailand are as of May 2018.

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



Trend 3: Inflation trend generally gaining traction



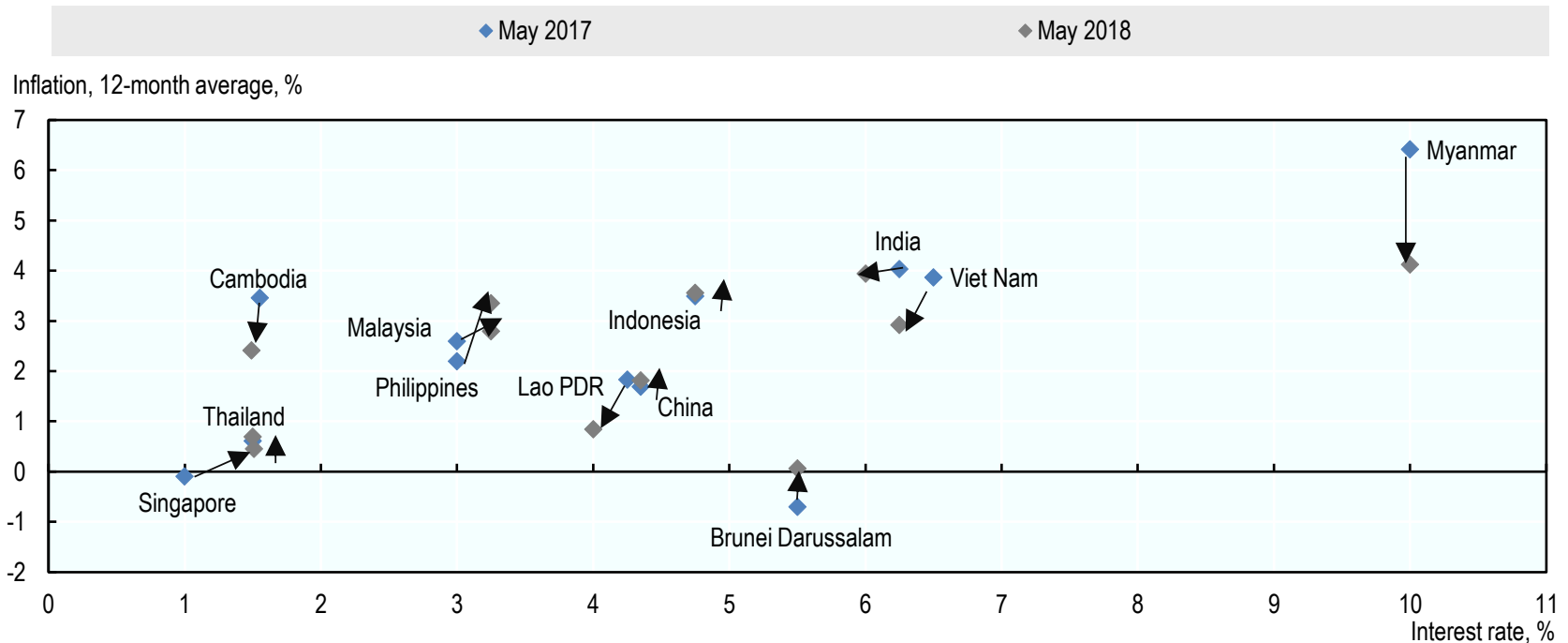
Notes: The Philippine Statistics Authority re-indexed the country's headline CPI from 2006=100 to 2012=100. Core inflation of Cambodia refers to CPI excluding Food, Non-Alcoholic Beverage and Energy.

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



Trend 4: Monetary policy becomes pro-active

Evolution of inflation and benchmark interest rates in Emerging Asia

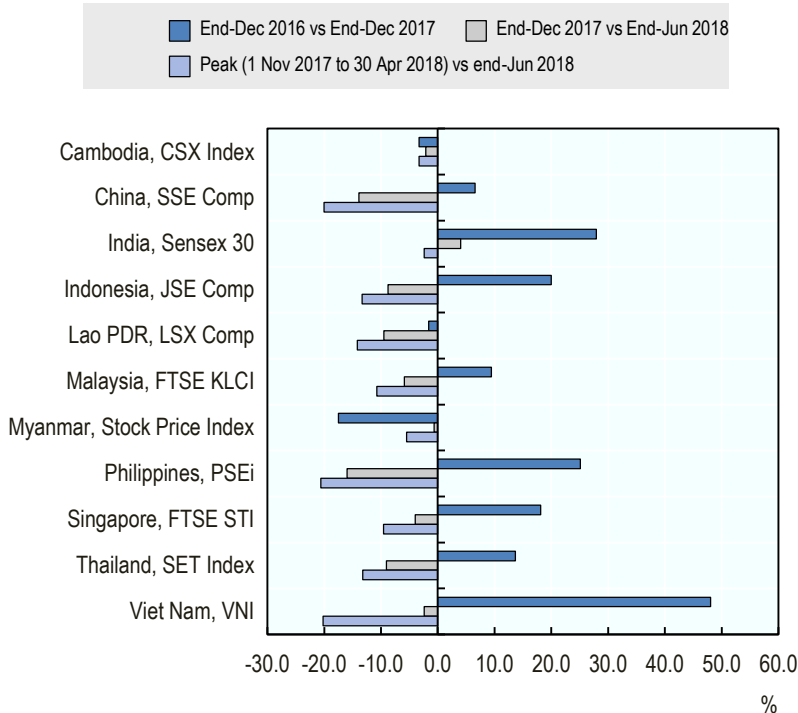


Note: The policy and benchmark interest rates used in the chart are as follows: prime lending rate (Brunei Darussalam), saving deposit rate as provided by IMF (Cambodia), nominal lending rate ≤ 1 year (China), repo rate (India), BI 7-day reverse repo rate (Indonesia), BOL short-term lending rate (Lao 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.



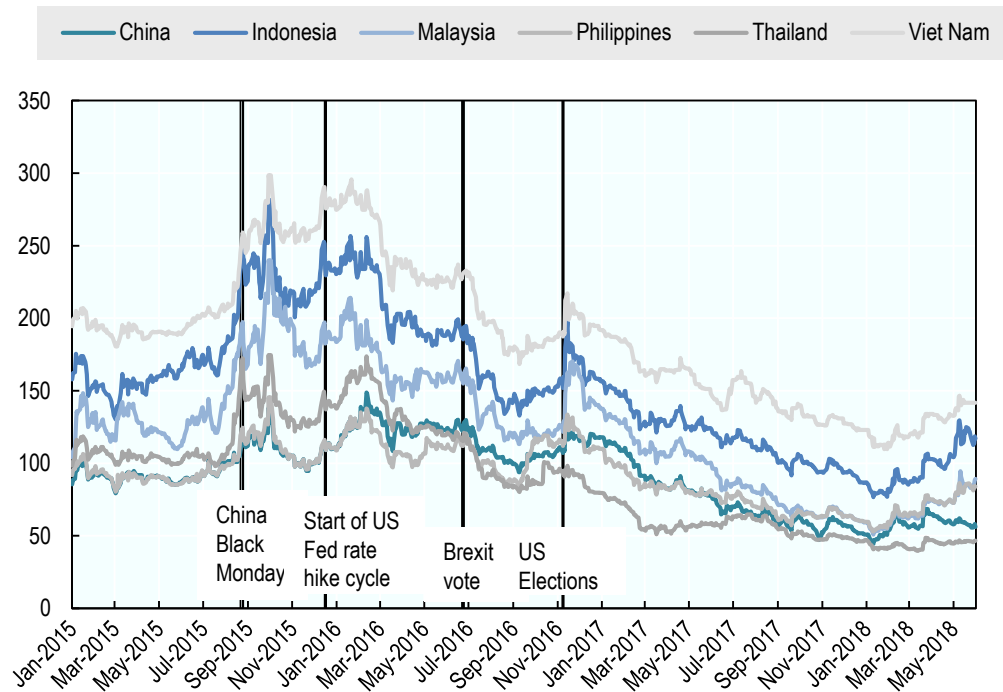
Trend 5: Optimism in capital markets has softened

Equity market returns in Emerging Asia, 2016-18



Note: Data are as of 29 June 2018.

Credit Default Swap (5-year senior) in ASEAN-5 and China, 2015-18
Mid-spread, basis points

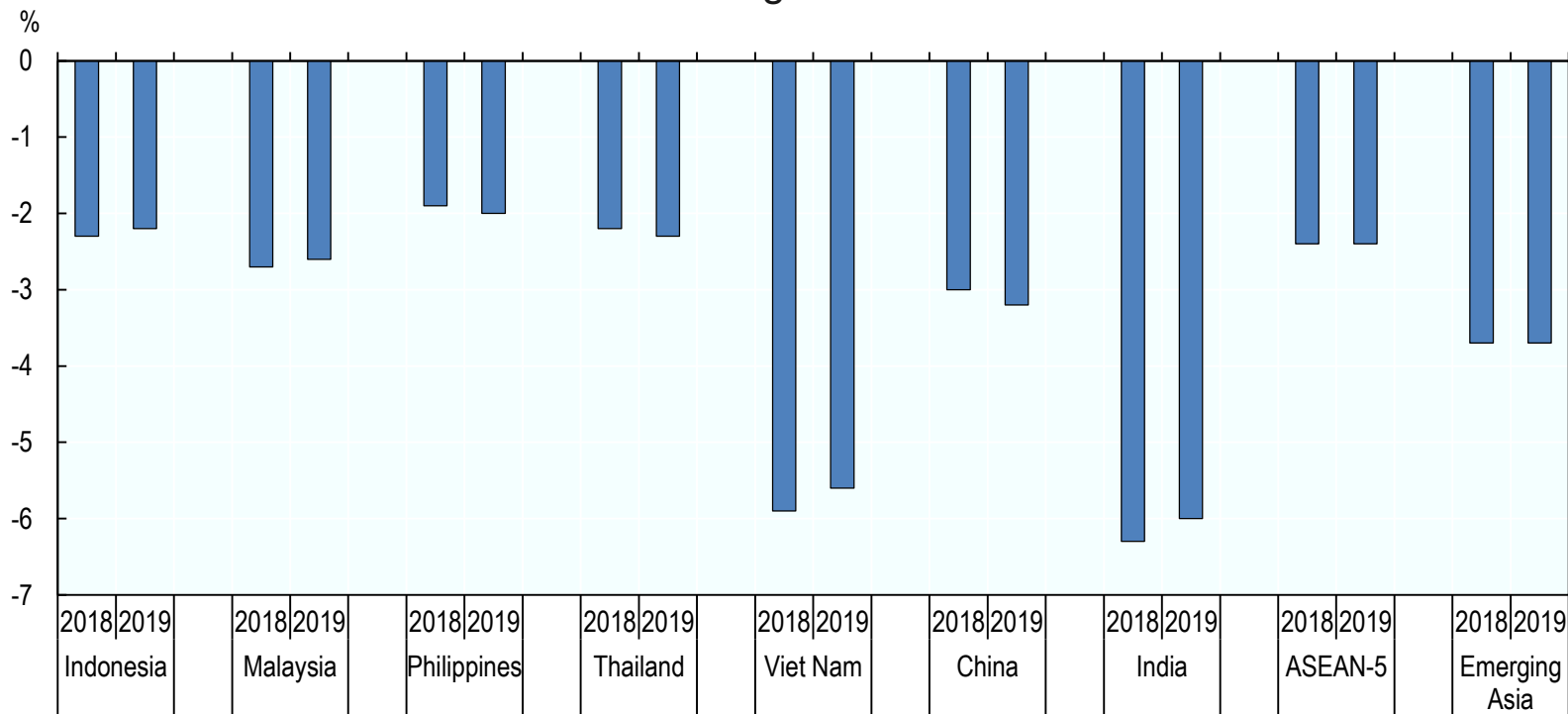


Note: Data are as of 31 May 2018.



Trend 6: Fiscal positions vary but generally sound

General government financial balances
Percentage of GDP

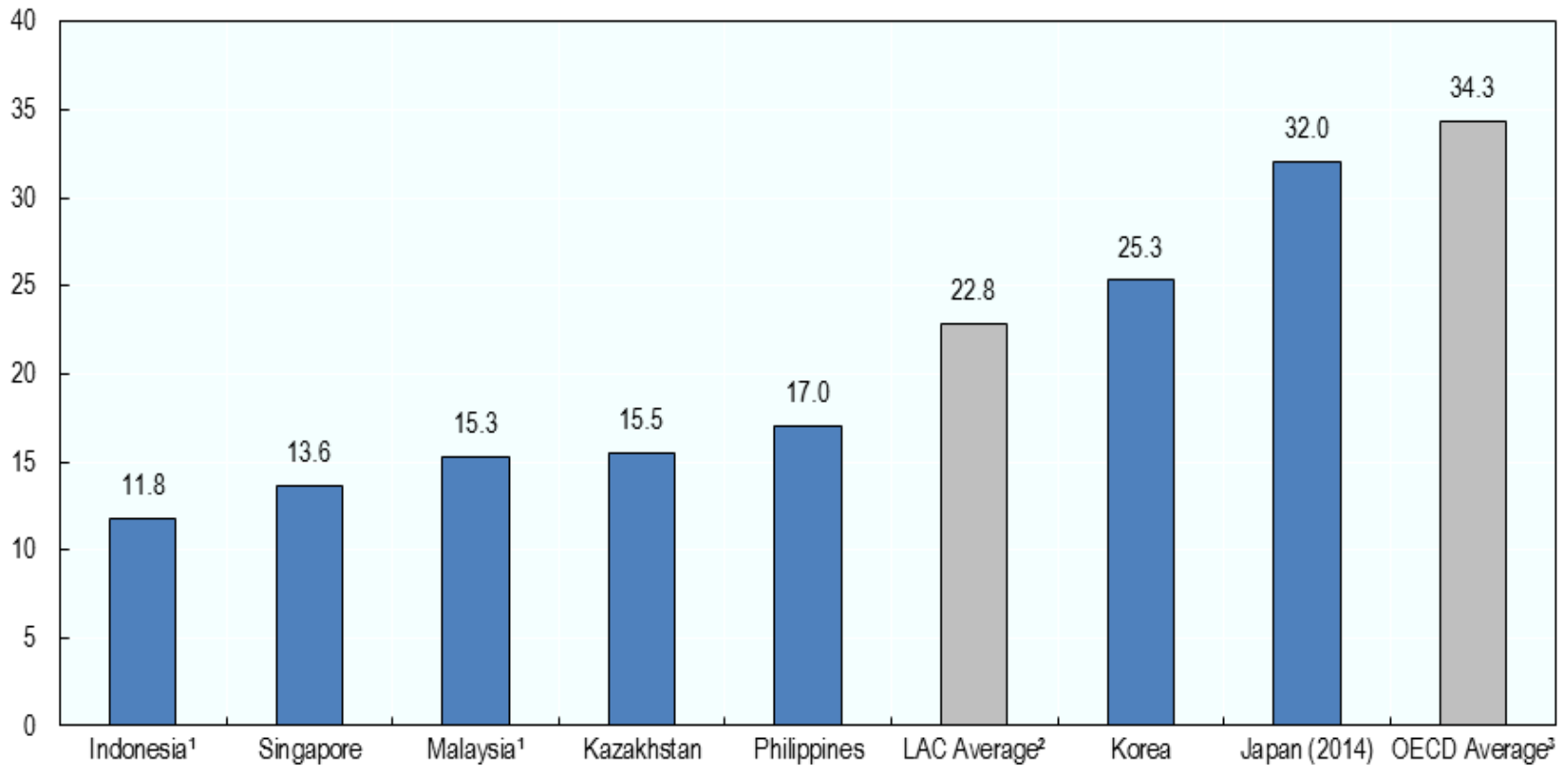


Note: The cut-off date for data used is 18 June 2018. ASEAN and Emerging Asia growth rates are the weighted averages of the individual economies subsumed. Data of India and Myanmar follow fiscal years. For Myanmar 2018 refers to the interim 6-month period from April 2018 to September 2018 while 2019 refers to fiscal year starting October 2018 to September 2019. The projections of China, India and Indonesia are based on the OECD Economic Outlook No. 103 (database). General government balances data are not necessarily comparable to the budget balances published by national governments.

Source: OECD Development Centre, MPF-2018 (Medium-term Projection Framework). For more information on the MPF, please see www.oecd.org/dev/asia-pacific/mpf.htm.



Tax to GDP ratios in 2015 in Asia





Challenges to the Outlook

- 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

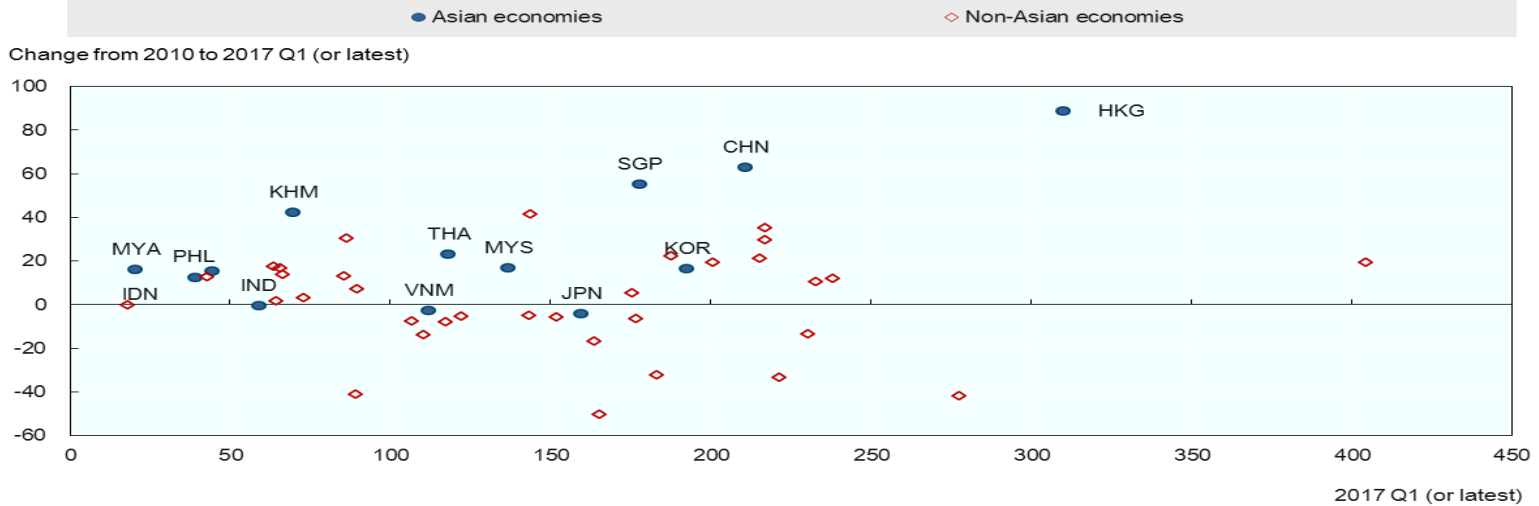
Summary of the recent central bank policy-rate changes in Emerging Asia

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

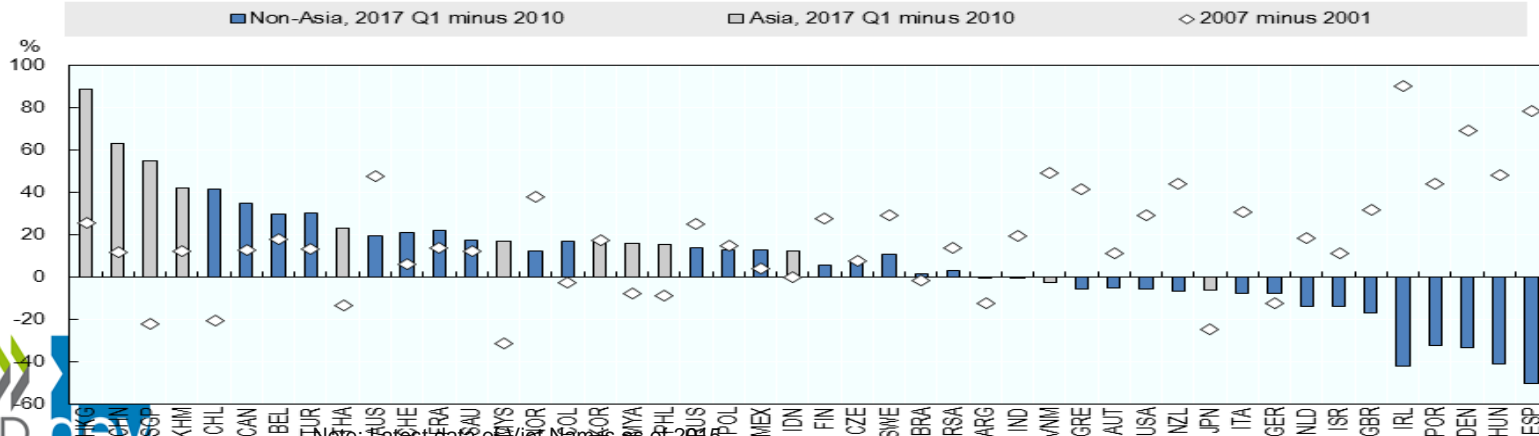


Rapid rise in private sector debt requires close attention

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	SGD 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

Note: Singapore totals refer to “development expenditure”, which includes “expenses that represent a longer-term investment or result in the formation of a capitalisable asset”.

Source: OECD Development Centre’s compilation based on national sources.



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
Technical Measures										
A. Sanitary and phytosanitary measures and B. Technical barriers to trade and C. Pre-shipment inspection and other formalities	X	X	X	X	X	X	X	X	X	X
Non-technical Measures										
E. Non-automatic licensing, quotas, prohibitions and quantity control measures other than for SPS or TBT	X	X	X	X	X	X	X	X	X	X
F. Price-control measures, including additional taxes and charges	X	X	X	X	X	X	X	X	X	X
G. Finance measures						X	X		X	
H. Measures affecting competition		X	X			X	X			X
Exports										
P Export-related measures	X	X	X	X	X	X	X	X	X	X



- 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 focuses – Outlook 2018 and Update: Digitalisation

- **Outlook 2018, released in November 2017**

*Impact of digitalisation on manufacturing
and services sector*

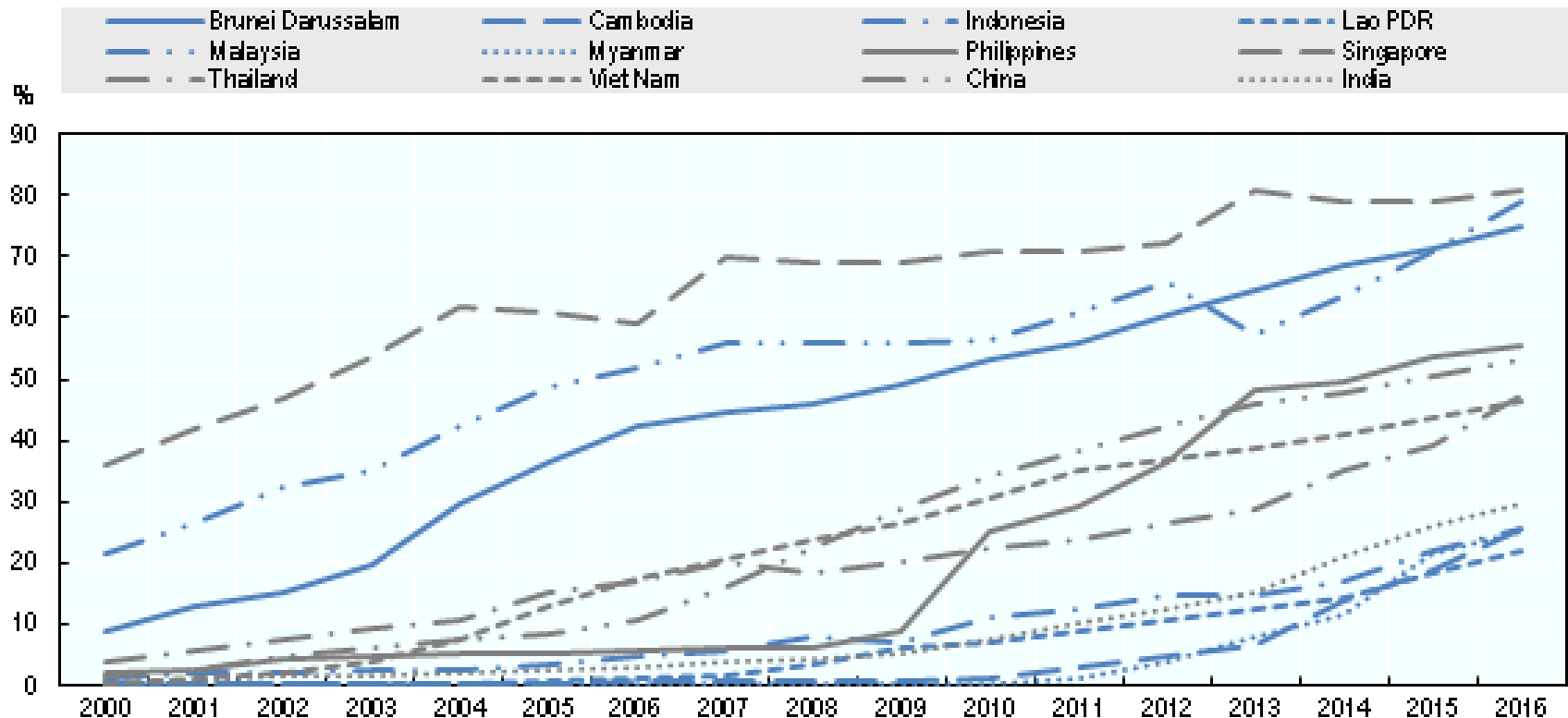
- **Update to Outlook 2018, released in July
2018**

E-commerce



Message 1: ICT and Internet use have grown rapidly

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



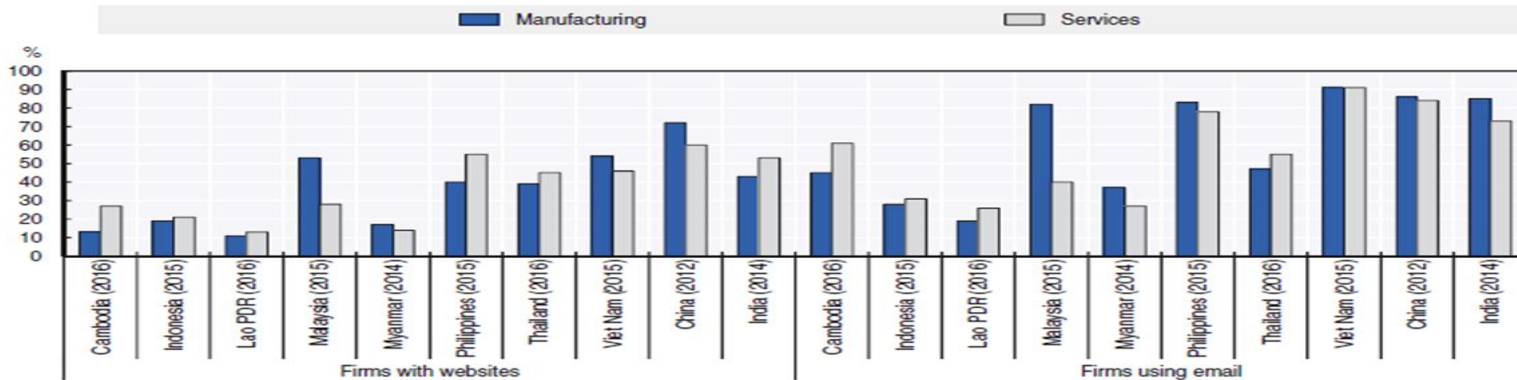
Note: Data on Internet use in Myanmar is not available for the year 2000.

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

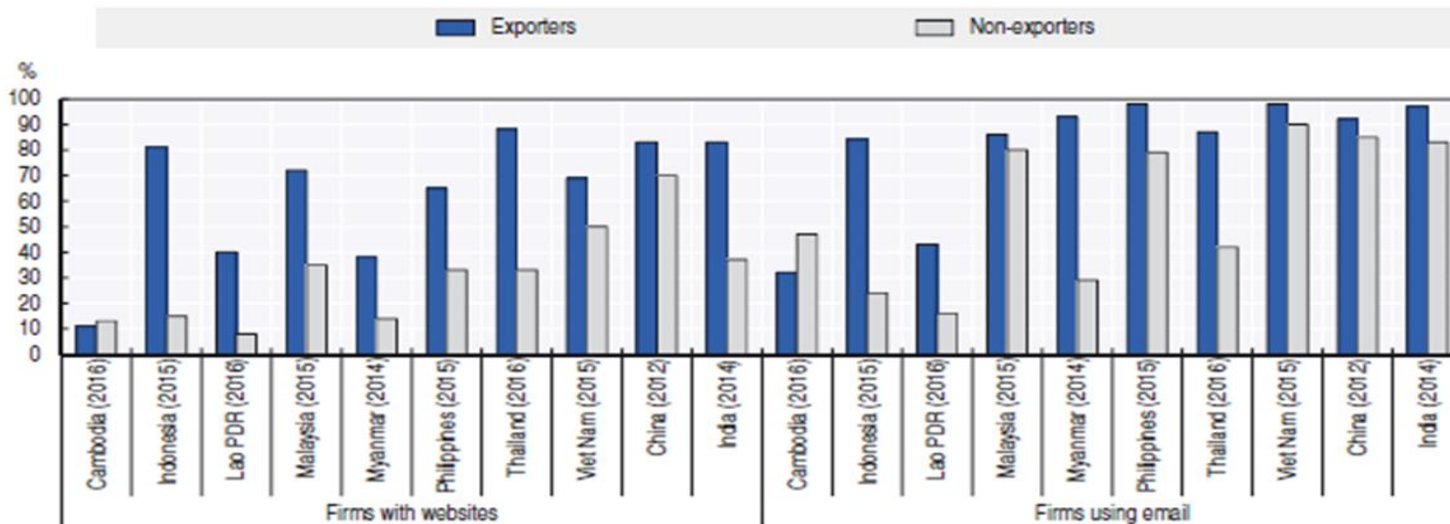


Message 2: Information technologies change how firms operate

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



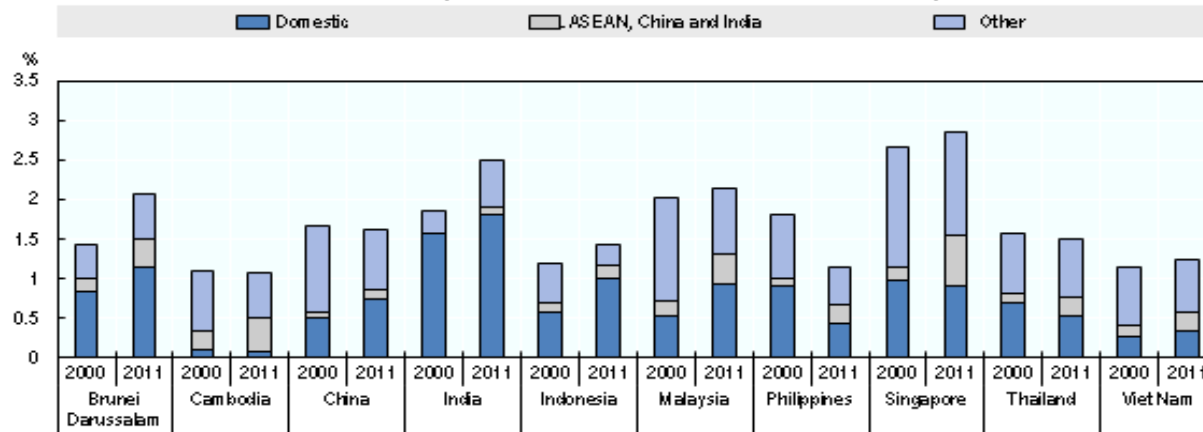
Source: World Bank (2017), Enterprise Surveys.



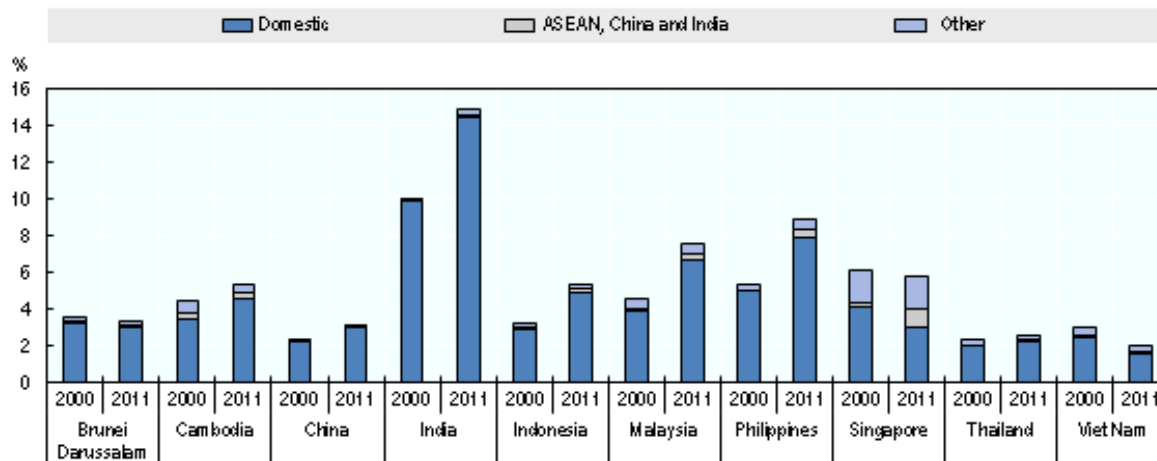
Message 3: Digitalisation is affecting trade trends

Computer and telecommunications services embodied in exports, 2000 and 2011

Percent of gross exports in manufacturing



Percent of gross exports in services



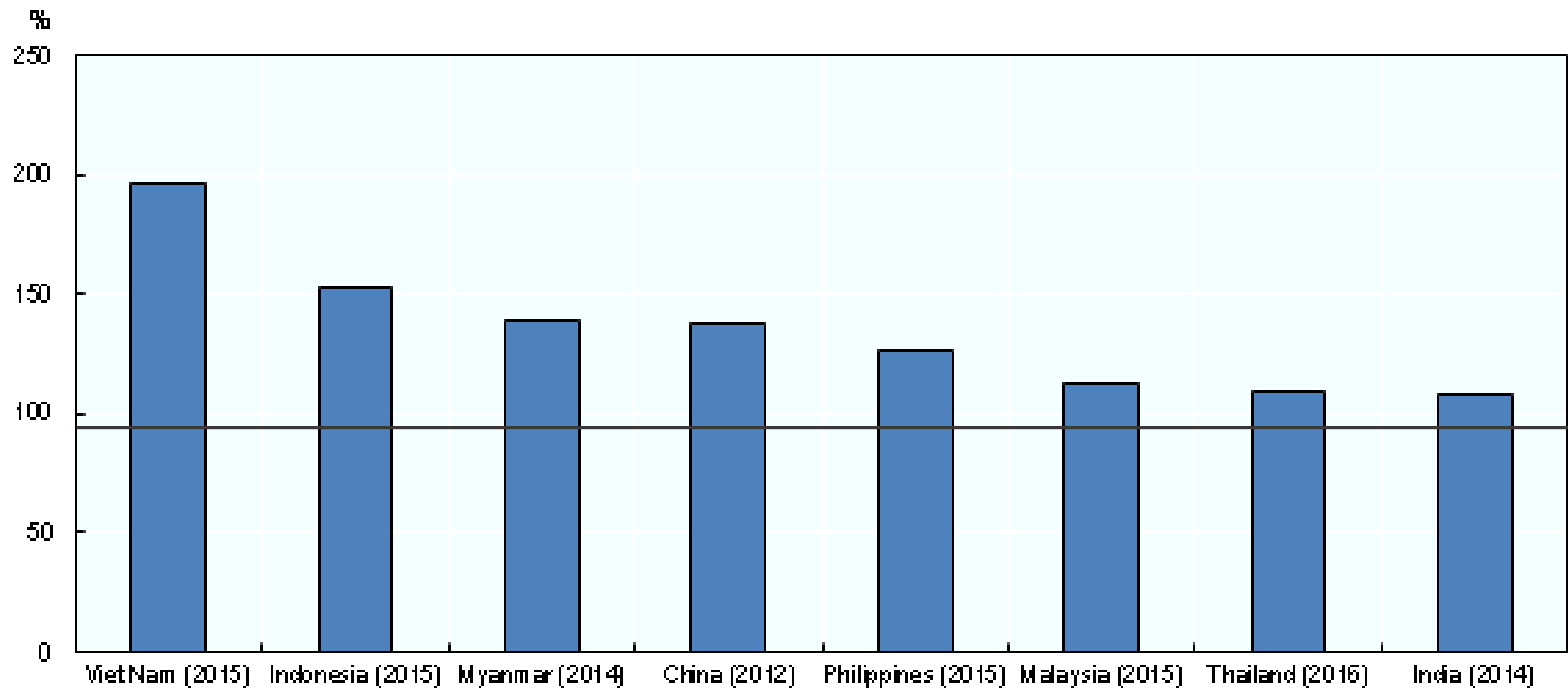
Source: OECD (2017), OECD-WTO TiVA Database, OECD, Paris.



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

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.

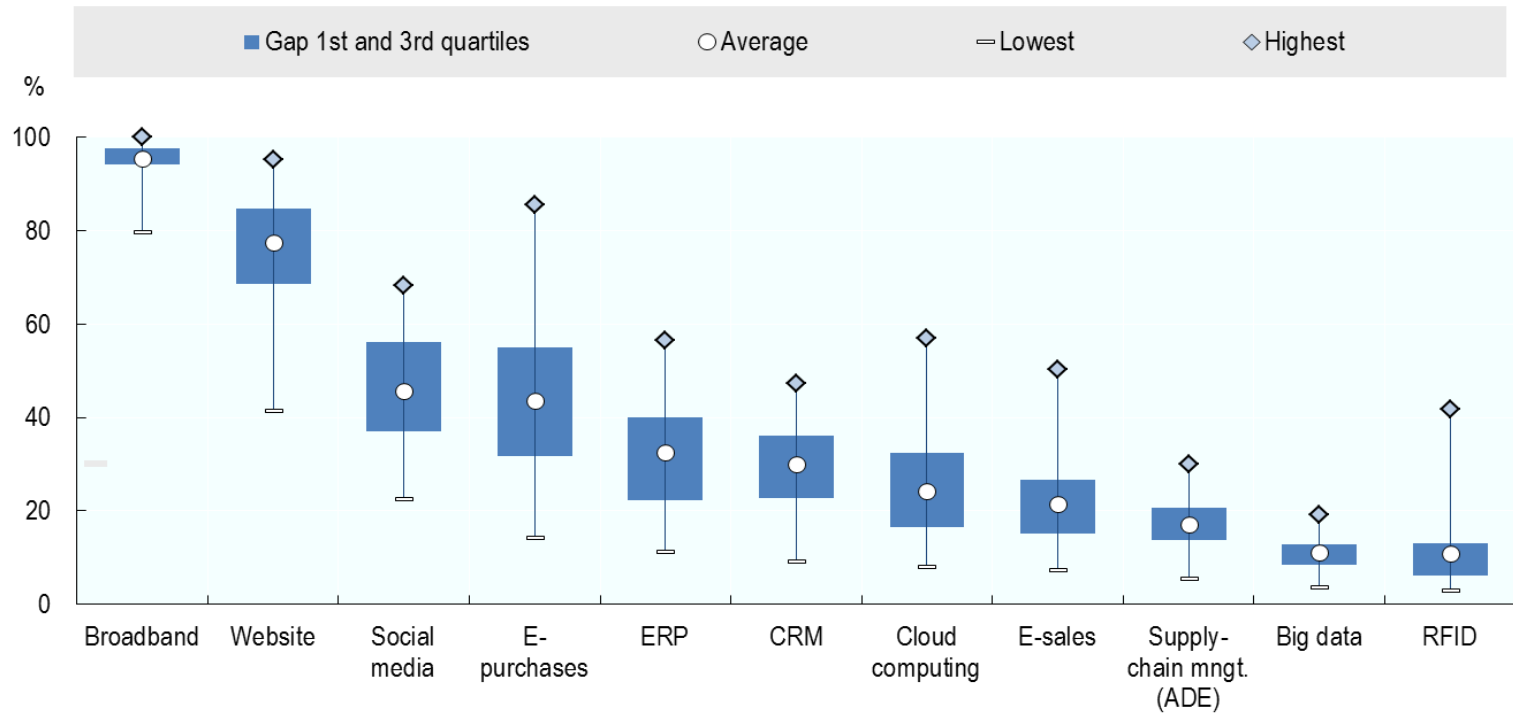
Source: OECD Development Centre's calculations, using World Bank (2017), *Enterprise Surveys*, World Bank, Washington, D.C.



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

Diffusion of selected ICT tools and activities in enterprises, 2016

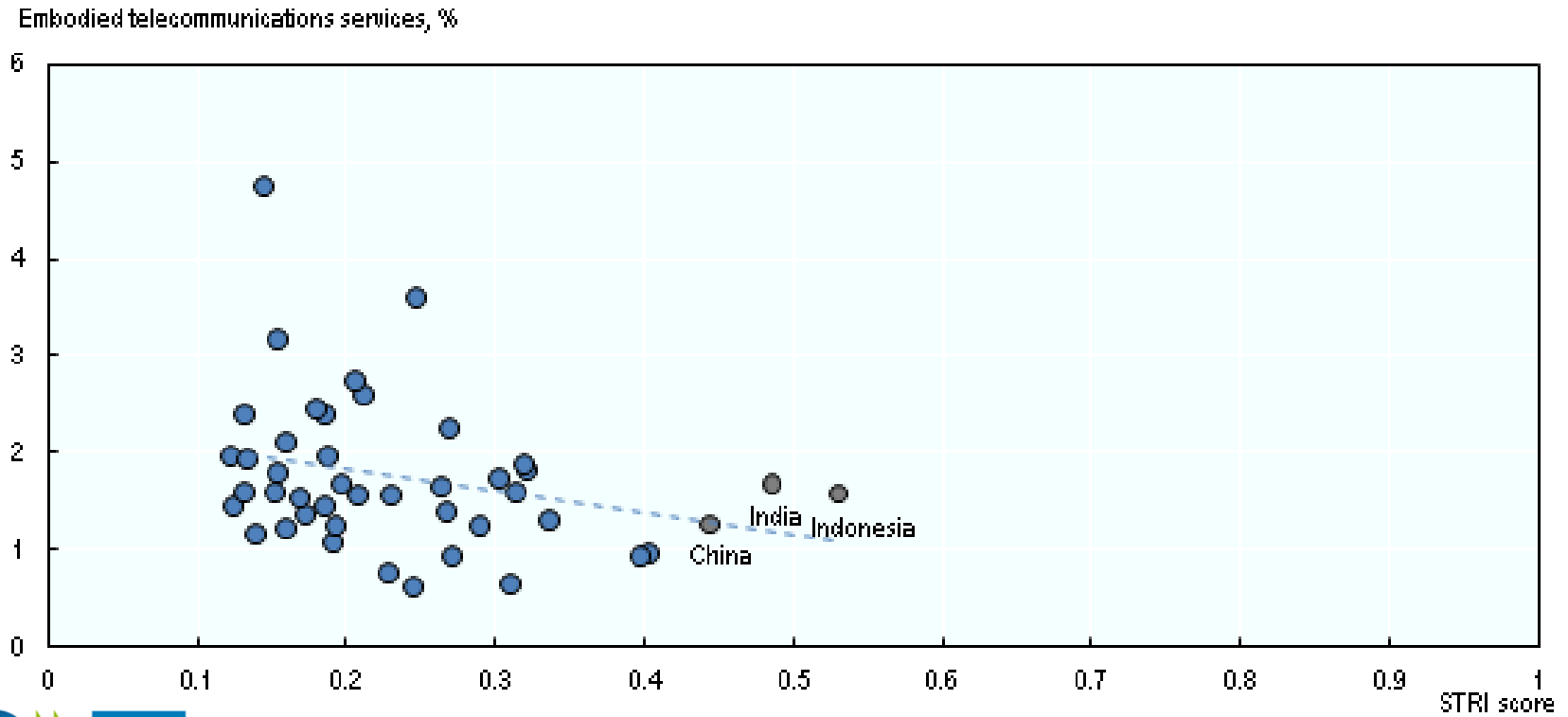
As a percentage of enterprises with ten or more employees



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

Message 5 : Trade and investment reforms may be needed to boost digitalisation

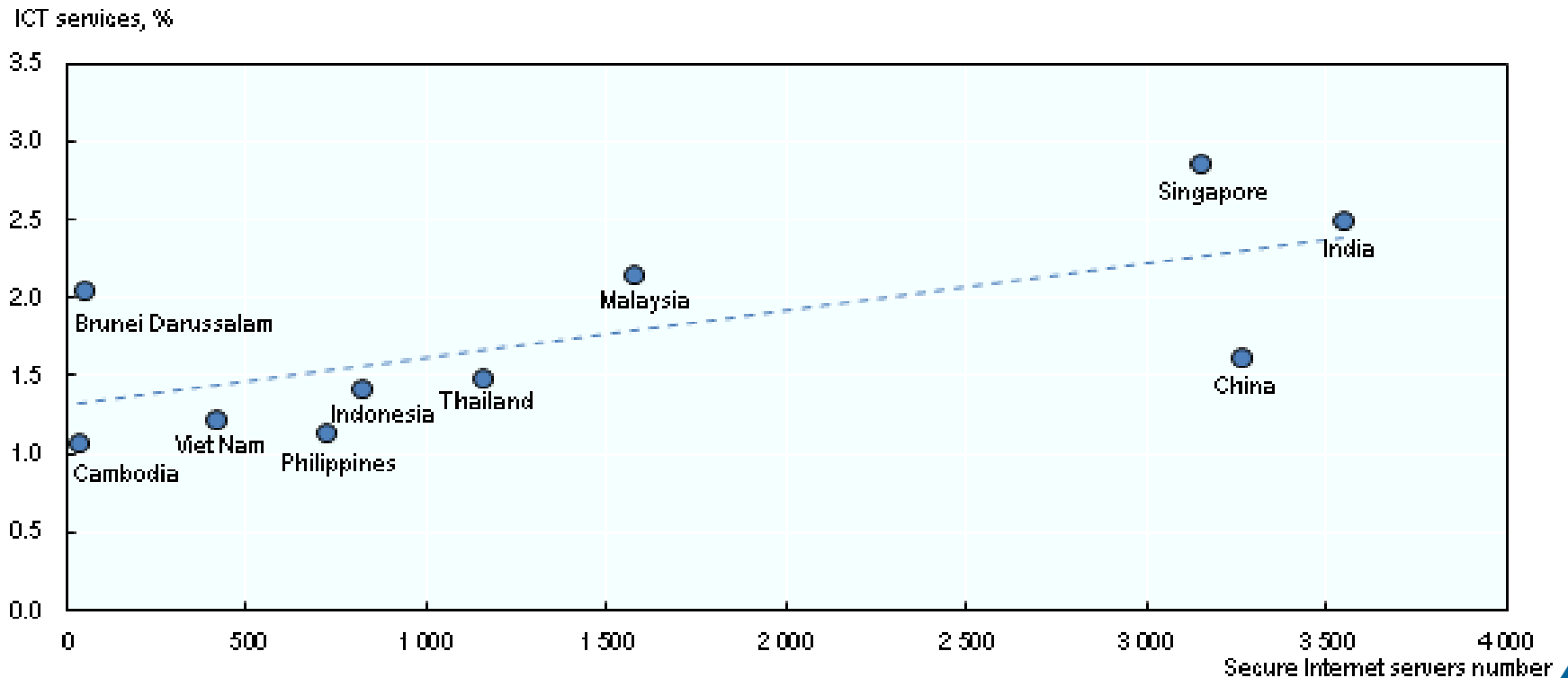
Policy restrictiveness in telecommunications and the proportion of telecommunications services embodied in gross exports, 2016





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



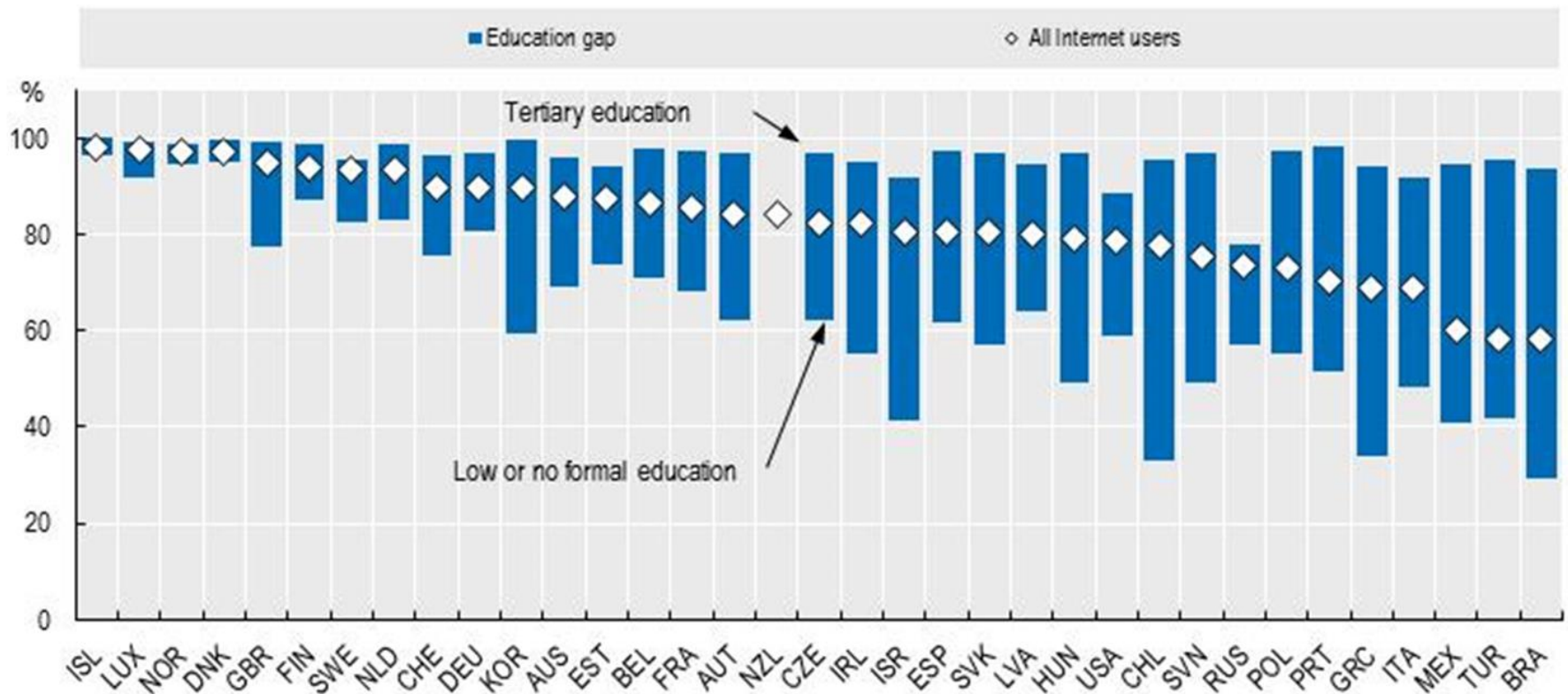


...important issues of technology uptake and use

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**



Cross-border e-commerce in Emerging Asia

Forms of e-commerce and other Internet applications

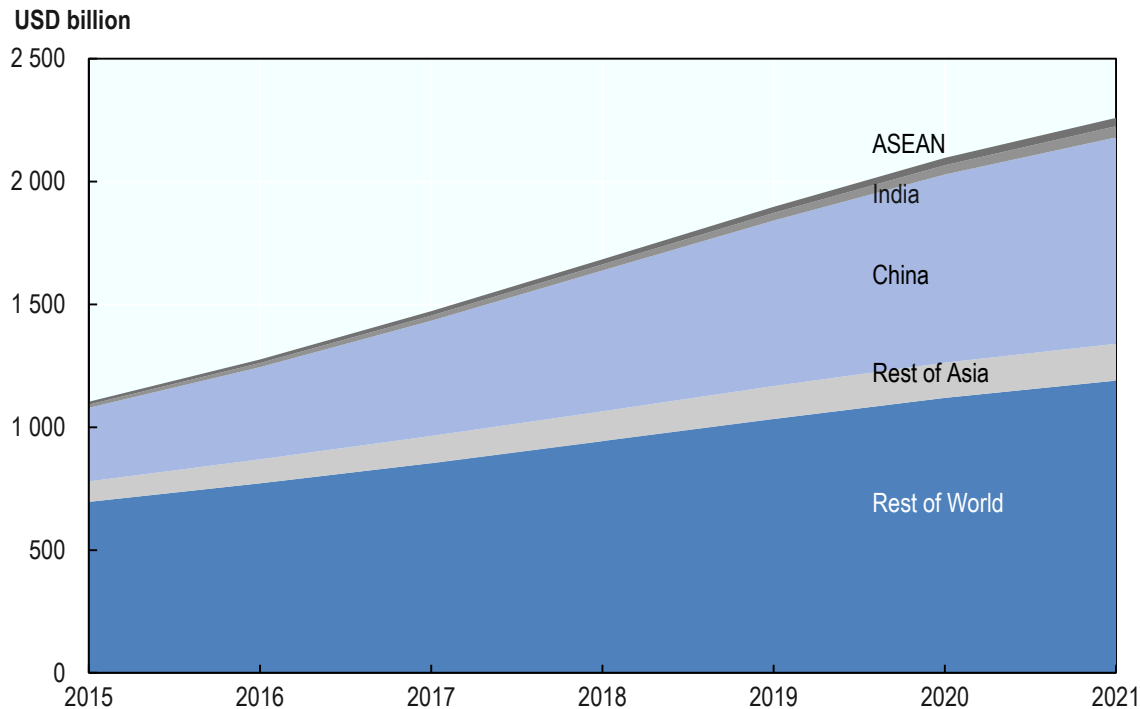
	Government	Business	Consumer
Government	G2G (e.g. co-ordination)	G2B (e.g. information)	G2C (e.g. information)
Business	B2G (e.g. procurement)	B2B (e.g. e-commerce)	B2C (e.g. e-commerce)
Consumer	C2G (e.g. tax compliance)	C2B (e.g. price comparison)	C2C (e.g. auction markets)

Source: OECD (2000), OECD Economic Outlook 67, OECD Publishing, Paris, <http://dx.doi.org/10.1787/data-00099-en>.



Message 1: 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.



Message 2: E-commerce growth requires that barriers be addressed

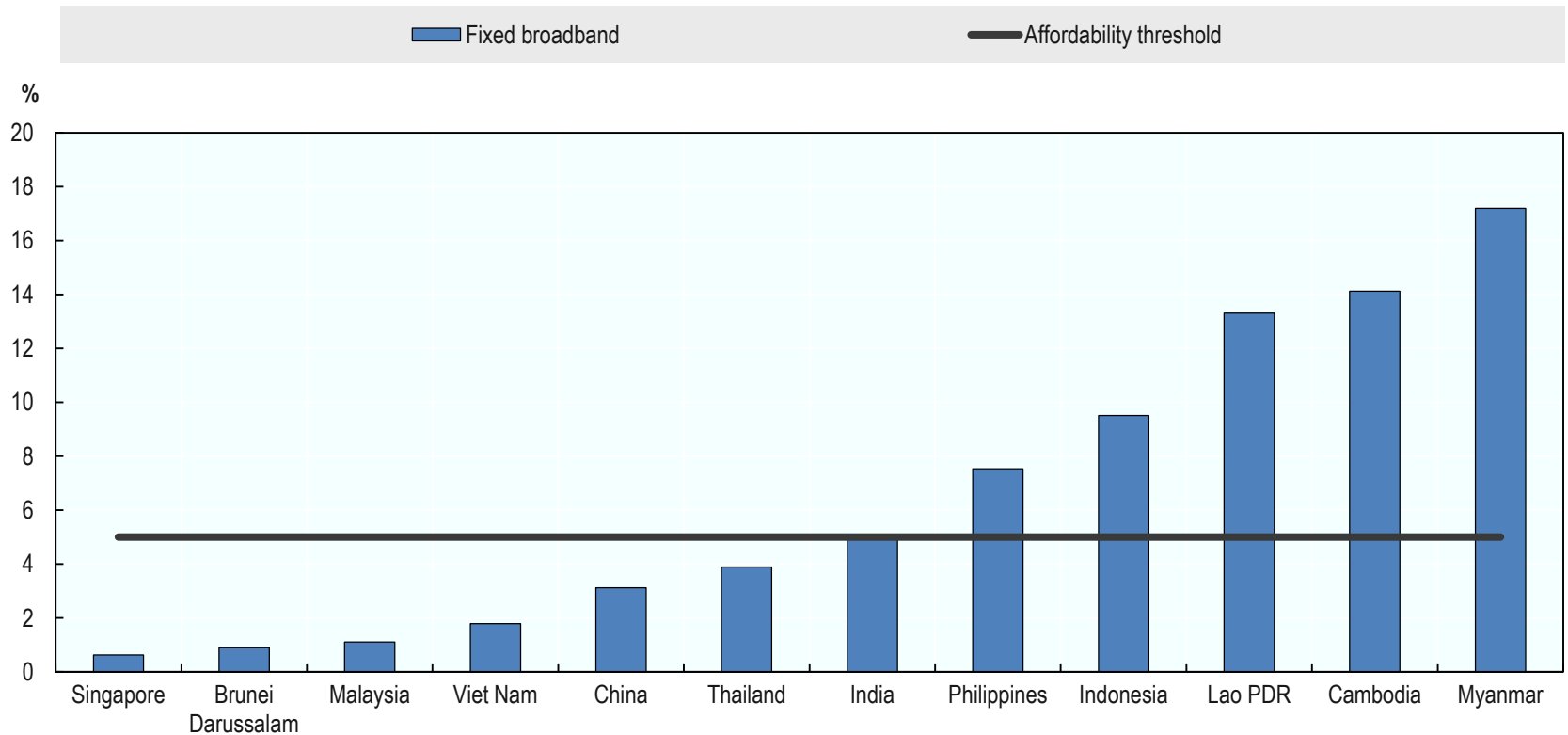
The generally positive growth prospects for e-commerce are challenged by differences within and across countries in the region in five main areas:

- ICT use by firms and individuals
- ICT infrastructure
- Legal and regulatory frameworks for e-commerce and related activities
- Transport infrastructure and logistics systems
- Payment systems for e-commerce



Message 3: ICT infrastructure development and accessibility vary across the region

Fixed broadband Internet prices in Emerging Asia, 2015
Percentage of gross national income per capita





Message 4: Legal and regulatory frameworks for e-commerce are needed

E-commerce laws in ASEAN, 2013

	Electronic transactions	Privacy	Cybercrime	Consumer protection	Content regulation	Domain names
Brunei Darussalam	Enacted	n.a.	Enacted	Partial	Enacted	Enacted
Cambodia	Draft	n.a.	Draft	n.a.	Draft	Enacted
Indonesia	Enacted	Partial	Enacted	Partial	Enacted	Enacted
Lao PDR	Enacted	n.a.	n.a.	Draft	Enacted	Partial
Malaysia	Enacted	Enacted	Enacted	Enacted	Enacted	Enacted
Myanmar	Enacted	n.a.	Enacted	Enacted	Enacted	Enacted
Philippines	Enacted	Enacted	Enacted	Enacted	n.a.	Enacted
Singapore	Enacted	Enacted	Enacted	Enacted	Enacted	Enacted
Thailand	Enacted	Partial	Enacted	Enacted	Partial	Partial
Viet Nam	Enacted	Partial	Enacted	Enacted	Enacted	Enacted



Message 5: Policy makers can help to foster beneficial cross-border e-commerce

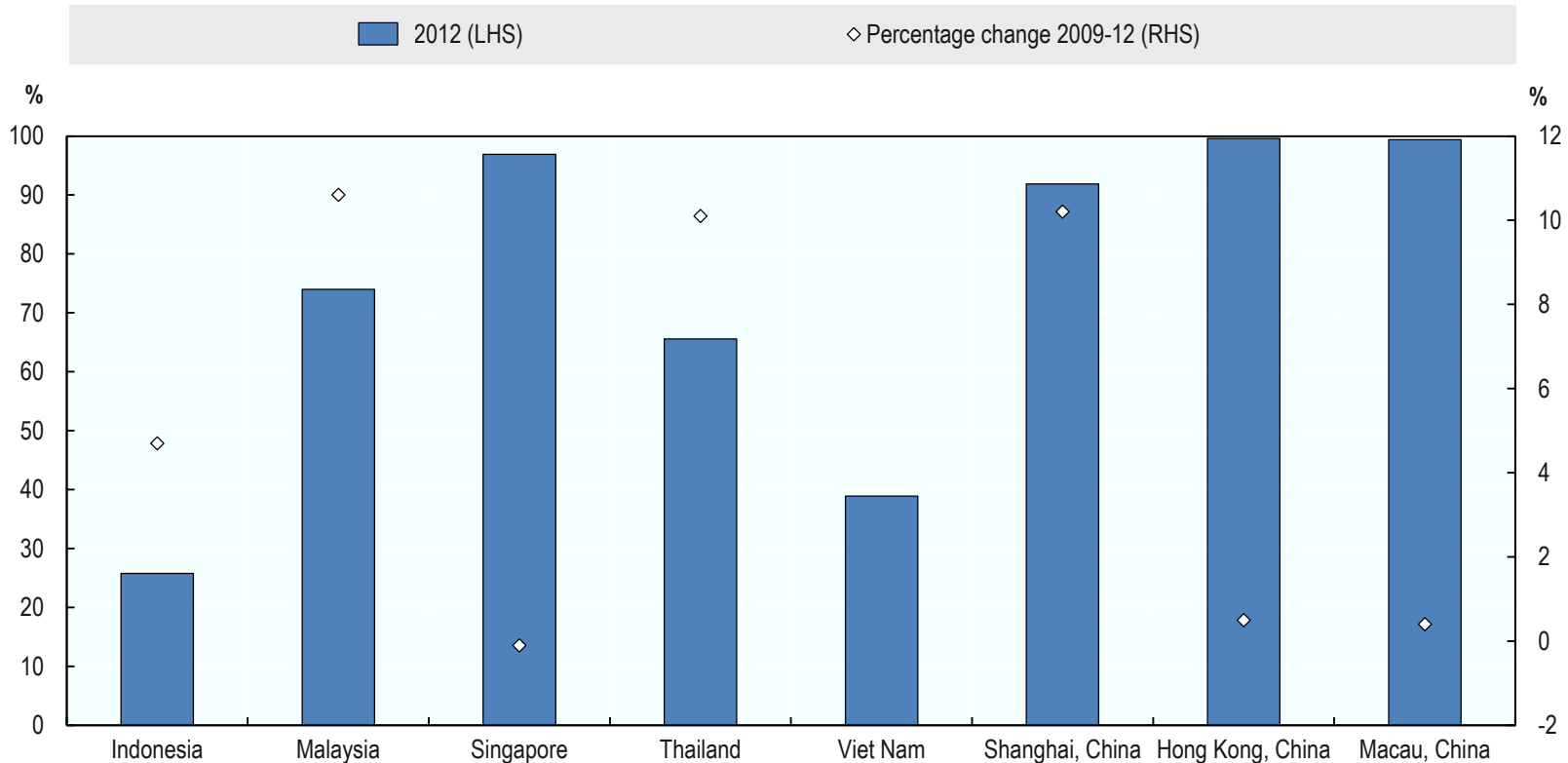
Governments in the region can help to promote the development of cross-border e-commerce through policies on:

- Human capital and skill development
- Connectivity, including ICT and transport infrastructure and logistics
- Digital security and consumer protection
- Regional and international co-operation



Message 6: Policy makers can help to foster beneficial cross-border e-commerce

Students with at least one computer at home, 2009-12



Note: Percentage change in 2009-12 is not available for Viet Nam.

Source: OECD (2015), PISA 2012 Database.



THANK YOU FOR
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ATTENTION