

16 January 2020

ASEAN 2020 outlook: SEA needs to be more connected to reach its full potential: HSBC

Southeast Asia can lift its economic growth if the region's business barriers in trade, sustainable infrastructure development, and the digital economy are removed, according to HSBC.

Tim Evans, CEO of HSBC Vietnam, said: "South-east Asia has achieved incredible inroads in its economic development over the past 20 years; however, the region runs the risk of seeing growth begin to slow. The key will be how policymakers continue to build greater connectivity across the trade block."

GDP growth in ASEAN nations averaged 5.5% a year between 2010 and 2018¹. HSBC research suggests its contribution to global GDP could rise to 8% if reforms are made.

According to HSBC, there are 3 main areas to foster a more joined-up region: (i) further cutting of non-tariff trade barriers, (ii) developing sustainable infrastructure, and (iii) creating a seamless digital region.

Removal of non-tariff barriers

While most goods trade tariffs have been removed across South-east Asia, more than 6,000 non-tariff trade barriers across the region have emerged².

Tim continued: "The region has been successful in removing virtually all formal tariffs; however, we're seeing the emergence of 'below-the-line' trade barriers instead. These can impact the region's ability to attract further international investment, particularly in areas linked to the increasing shifts in supply chains, if left unaddressed."

A significant offset to these barriers will be the ASEAN-led Regional Comprehensive Economic Partnership (RCEP), which makes up 30% of the world's population and 29% of the world's GDP³. The RCEP is expected to be signed in early 2020.

Other areas to work on in 2020 include:

- Increasing the minimum threshold for goods that would require a Certificate of Origin (reducing the amount of administration)
- Automating customs clearance across all ASEAN member states
- Encouraging the last ASEAN nations, including the Philippines⁴, to join the ASEAN Single Window.

¹ ASEAN Economic Integration Brief No 5, June 2019

² PRESS STATEMENT: EU-ASEAN BUSINESS COUNCIL LAUNCHES NEW ASEAN TRADE FACILITATION PAPER: CALLS FOR FASTER ACTION ON AEC OBJECTIVES

³ <https://www.eastasiaforum.org/2019/12/08/aseans-quiet-resilience/>

⁴ <https://www.philstar.com/business/2019/10/14/1959937/philippines-joining-asean-single-window-platform-year-end>

Sustainable infrastructure and greening the region

The second vital element in positioning South-east Asia for its next phase of growth is ramping up investment in sustainable infrastructure that will both bring the region closer together and expand the opportunities for industry.

The Asian Development Bank (ADB) says that South-east Asia needs to invest USD210 billion – 5% of projected GDP – a year over the next decade in infrastructure just to maintain current levels of growth⁵.

And this challenge is compounded by the environmental threat facing the region.

The ADB estimates that if left unaddressed, climate change could reduce the region's GDP by 11% by the end of the century⁶.

ASEAN member states will need to be increasingly focused on smoothing the path for greater private sector investment in sustainable infrastructure financing.

Digital connectivity

The final challenge is to create a borderless digital ecosystem that spans the region. Digital technology has the potential to play a key role in driving the development of new industries and growth. But the region has to agree on a common set of standards for data handling and digital commerce, which will encourage businesses to share data, to realise that potential.

Different digital regulatory regimes across South-east Asia limit the ability of both local firms and multinationals to reap the full benefits of economies of scale, weakening its attraction as an investment destination.

The Master Plan on ASEAN Connectivity 2025 is the central node to enhance data management, facilitate harmonisation of data regulations among ASEAN Member States and promote intra-ASEAN flows of data.

However, this is largely a self-run programme for member countries, so ASEAN nations will need to maintain discipline for its momentum to build. The impetus for doing so will only become more pronounced as 5G begins to be rolled out across South-east Asia in 2020.

Tim concluded: "South-east Asia has achieved a significant amount in recent decades but there is more that can be done to further build connectivity. Challenged by trade barriers, infrastructure gaps and a burgeoning digital economy, ASEAN needs to make tough political choices in order to create a borderless and sustainable block that will push beyond average growth levels."

2020 is the big year for Vietnam's foreign policy as the country has launched its ASEAN Chairmanship. With the theme of "Cohesive and Responsive", Vietnam has unveiled 5 top priorities: firstly, strengthening ASEAN unity and solidarity, reinforcing ASEAN centrality and promoting its active contribution to regional peace and stability amid strategic complexities; secondly, intensifying ASEAN's economic integration and connectivity, better equipping ASEAN economies and its people to adapt to the dynamic changes from the forth Industrial Revolution and the digital economy; thirdly, promoting ASEAN identity and awareness about the ASEAN Community among the people; fourthly, enhancing ASEAN's global partnership for peace, stability and sustainable development; and lastly, increasing ASEAN's institutional capacity and effectiveness. By the goals, Vietnam aims to solidify the intra-ASEAN coalition in the context of the trade war is still complicated and unexpected in order to ensure the stability of the region's multilateralisation, free trade and the multilateral commercial system.

ends/more

Media enquiries to:

Anh Hoai Ly

+028 35203483

anh.hoi.ly@hsbc.com.vn

⁵ <https://www.adb.org/publications/asia-infrastructure-needs> p40

⁶ <https://www.adb.org/news/climate-change-losses-southeast-asia-well-above-previous-estimate-ADB>

Notes for Editors:

HSBC Bank (Vietnam) Ltd.

HSBC has been in Vietnam for 150 years – the bank first opened an office in Saigon (now Ho Chi Minh City) in 1870. HSBC was the first foreign bank to launch its locally incorporated entity on 1 January 2009 as HSBC Bank (Vietnam) Ltd. The bank's current network includes two branches and five transaction offices in Ho Chi Minh City, one branch and four transaction offices in Hanoi, and two full-service branches in Binh Duong and Da Nang. HSBC is one of the largest foreign banks in the country in terms of investment capital, product range, and customer base.

ends/all