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The 2016 edition of the Economic Outlook for Southeast Asia, China and India focuses on three main areas: Chapter 1 examines the regional economic outlook up to 2020; Chapters 2 to 5 look at the prospects and challenges for regional integration; and Chapter 6 provides detailed country notes on the prospects for structural policy in the region.

## **Economic outlook from 2015 to 2020**

Real gross domestic product (GDP) growth in Emerging Asia (the ten ASEAN members plus China and India) is expected to moderate to 6.5% in 2015, slipping to 6.2% over the medium term (2016-20). Private consumption will be the largest contributor to overall growth, while exports will contribute less than before.

The change in the pace of growth will not be the same everywhere. While China is set to slow to an annual average of 6% over the medium term, annual growth in India will reach 7.3%, among the highest in the region.

In the 10-member ASEAN area, annual growth is expected to be unchanged in 2015, hitting an average of 4.6%, and then rising to 5.2% over the medium term. Among the ASEAN-5 members, the Philippines and Viet Nam will be the strongest performers, helped by their improved macroeconomic fundamentals and infrastructure plans. Cambodia, Lao PDR and Myanmar (CLM) look set to be the strongest performers, with medium-term annual growth of between 7.3% and 8.3%. Recovery in agriculture and expansions in tourism and industrial output will boost Cambodia and Lao PDR while Myanmar will benefit from rising investment and economic reforms.

### *Risks to growth*

The main risk to growth is the slowdown in China, which poses the threat of a demand shock, although the potential impact varies greatly. A slowdown in exports to China risks hitting Malaysia, Singapore and Thailand hardest. Similarly, a slowing in investment from China could be a worry for Malaysia and Thailand. The latter could also suffer from a decline in Chinese tourism.

Other potential threats include interest rate rises in the United States, which could put pressure on short-term rates in the region. However, while this may be a cause for concern in some cases, the impact is likely to be muted. Additional risks include a slowing in productivity growth across much of Emerging Asia since the global financial crisis – a trend that needs to be reversed.

## **Regional integration: Prospects and challenges**

Regional integration in Emerging Asia has progressed since the 1980s, led by the countries of Southeast Asia. A number of frameworks for regional integration have emerged, including the ASEAN+3 (ASEAN, Japan, China and Korea) and ASEAN+6 (ASEAN+3, India, Australia and New Zealand) initiatives. In particular, the establishment of the ASEAN Economic Community by end-2015 is seen as a major milestone.

Progress made and remaining challenges in deepening regional integration vary across key policy areas: trade in goods; trade in services; investment and capital market liberalisation; competition and consumer protection; intellectual property; infrastructure and connectivity; small- and medium-sized enterprises; food, agriculture and forestry; tourism; human and social development; and the Initiative for ASEAN Integration (IAI).

Strengthening regional ties is one of the best strategic responses to a changing global environment. But despite progress current efforts are still not enough to achieve integration targets. Countries in the region need to make additional efforts and take active steps to realise a single economic market by 2015 and beyond. Measures should include:

- **Improved co-ordination:** Existing institutions and regional frameworks could be used more effectively. There need to be greater efforts to co-ordinate between regional initiatives and national agendas to avoid duplication and ensure all are moving in the same direction;
- **Tackling regional disparities:** Some countries, notably Cambodia, Lao PDR, Myanmar and Viet Nam, face particular development challenges. Development gaps within the region create barriers to the implementation of uniform targets and approaches. As ASEAN works to create its next IAI plan, it has an important opportunity to rethink how it can facilitate integration of the region's least developed members.
- **Greater co-operation with non-ASEAN members:** Co-operation with partners outside of ASEAN, particularly those in the ASEAN+3 and +6 frameworks, has already proved useful, particularly in areas like financial stability, trade and investment promotion, and environmental and disaster risk management.
- **Improved monitoring:** Indicators on integration remain relatively underdeveloped in the region. There is a fundamental need for reliable indicators before monitoring, evaluation and analysis, and knowledge sharing can proceed.
- **Greater attention to green issues:** The enormous economic progress of the region has come at a high environmental price. The region needs to make more use of its large renewable energy resources and improve regional co-operation.
- **Addressing private sector development:** While foreign direct investment (FDI) inflows are growing, greenfield investments are declining particularly in the manufacturing sector. Mergers and acquisitions offer great potential to expand markets but remain concentrated in a limited number of sectors. Policies are required to address overly narrow domestic focus which restricts local firms, particularly small and medium-sized enterprises (SMEs), from achieving their potential as "ASEAN enterprises".

## Prospects for structural policy

The structural policy priorities of countries in the region are diverse, but many have a clear focus on the need for more inclusive and sustainable development, which recognises the need for high-quality growth and improved quality of life. Improved competitiveness is also a priority for many, as well as reducing the impact of economic activity on the environment.

Topics to be addressed include rural development, social programmes, promoting investment, and taxation. Education and infrastructure are also common areas of concern: less-developed countries are seeking to provide the basic foundations for growth and to address troublesome bottlenecks; higher-income economies are looking to establish the conditions for more knowledge-based development in the future.

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© OECD (2015), *Economic Outlook for Southeast Asia, China and India 2016: Enhancing Regional Ties*, OECD Publishing.

doi: 10.1787/saeo-2016-en