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The 2017 edition of the "Economic Outlook for Southeast Asia, China and India" focuses on four main areas: the regional economic outlook up to 2021 (Chapter 1), recent developments in regional integration efforts (Chapter 2), developing renewable energy (Chapter 3) and detailed country notes on key structural policy challenges in the region (Chapter 4).

## **Economic outlook to 2021**

Real GDP growth in Emerging Asia (the ten ASEAN member countries – Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam – plus China and India) is expected to remain robust at an average of 6.2% over 2017-21 compared with 6.5% in 2016. Private consumption should continue to make a large contribution to growth. The ten ASEAN economies are projected to see a slight improvement in growth, from 4.8% in 2016 to 4.9% in 2017, and average annual growth of 5.1% over 2017-21. Growth in the Philippines and Viet Nam is expected to continue to be the highest among the ASEAN-5 countries (Indonesia, Malaysia, the Philippines, Thailand and Viet Nam), at 6.2% and 6.1% per year, respectively, over the medium term. The other ASEAN-5 countries are expected to see fairly stable or improving growth over the medium term, compared with recent performance. Brunei Darussalam will see a return to moderate growth, while stable but moderate growth will continue in Singapore. Cambodia, Lao PDR and Myanmar (CLM) will continue their catch-up, with the strongest growth rates among ASEAN countries, exceeding 7% annually over the next five years and reaching 8.5% on average in Myanmar.

China's growth is expected to slow to an annual average of 6% over the medium term. Growth in India will remain high, at 7.3% over the medium term, similar to the 7.4% expected in 2016.

### ***Risks to growth***

Despite a largely favourable outlook, policy makers in the region will need to pay careful attention to several potentially important downside risks to growth:

- Growth in trade has slowed in the region over the past five years, as in the rest of the world. While this is partly due to factors that cannot be influenced by policy, such as China's slowdown, increased focus on areas of comparative advantage may help to boost exports. The increasing prevalence of non-tariff barriers (NTBs) could further impede trade activities.
- Persistent low interest rates in advanced economies, if not managed appropriately, may result in market instability in Emerging Asia. In particular, the banking sector needs to be carefully monitored.
- Plateauing productivity growth threatens long-term growth prospects. Promoting enhanced productivity requires reforms to the business environment and policies to foster the emergence of productive firms, including through developing domestic capacities to benefit from international knowledge and technology flows.

## Recent developments in regional integration

Integration remains a good way for the region to build resilience and improve growth prospects. This is especially true in the current context of slower global economic growth and the implementation of more inward-looking policies in some parts of the world. The ASEAN Economic Community was established at the end of 2015, and a number of sector plans for the community have been set under the new ASEAN Economic Community (AEC) Blueprint 2025 to facilitate the free flow of goods, services, investments, capital and skilled labour.

Recent achievements have been made in 12 key policy areas: trade in goods; trade in services; investment and capital markets; competition and consumer protection; intellectual property rights; infrastructure and connectivity; SMEs; food, agriculture and forestry; tourism; human and social development; energy; and the Initiative for ASEAN Integration. However, the overall progress of integration is relatively slow in ASEAN, with many regional initiatives delayed by challenges in the timely and effective implementation of supportive domestic policies. Such supportive policies facilitate deeper co-operation and improve long-term commitments to regional integration.

## Developing renewable energy

Long-term projections by the International Energy Agency (IEA) show that a large increase in energy consumption is to be expected in Emerging Asia as a result of a variety of socio-economic factors, including increasing population, sustained economic growth, and increasing access to electricity. Total Primary Energy Supply is expected to increase from 4 406 million tonnes of oil equivalent in 2013 to 6 998 in 2040, with fossil fuels remaining the main source of energy used in the region.

Much of the region has adopted specific targets for the implementation of renewable energy capacities, as well as policy mechanisms to foster the development of renewables that are not yet competitive with conventional energy sources. Among these, feed-in tariffs (FITs), a price-driven policy mechanism that offers long-term purchase agreements to power producers for given renewable energy technologies, are commonly used. While FITs can be effective, setting appropriate tariffs levels can be challenging.

Due to their size, China and India are making very large contributions to global investment in renewable energy. Viet Nam, Thailand, Malaysia and Lao PDR are leading investment among ASEAN countries, with particularly large investments in hydropower. FDI will be an important channel for investment in renewables that also enables the transfer of capital, technology and expertise. India, China and Indonesia have received the largest inflows in the region, accounting for more than 60% of the total. FDI is also helping to support the expansion of green jobs.

Setting the right conditions for the development of renewable energy in Emerging Asia will require solutions to challenges in grid access, administrative barriers and energy pricing mechanisms.

## Key structural policy challenges

Domestic-level structural policy reform is critical in providing the conditions to maintain robust and sustainable growth in Emerging Asian economies. In pursuing their plans for national development, common priority areas for reform for the region include infrastructure, education and skill development, tourism, FDI, and energy. Other important issues to be addressed by the countries of this diverse region include housing, the digital economy, economic diversification, capital market development and entrepreneurship.

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