

ASEAN Economic Integration and Prospects for Inclusive Growth

2015 MCPI Annual Conference

Microfinance and Inclusive Growth

23 July 2015

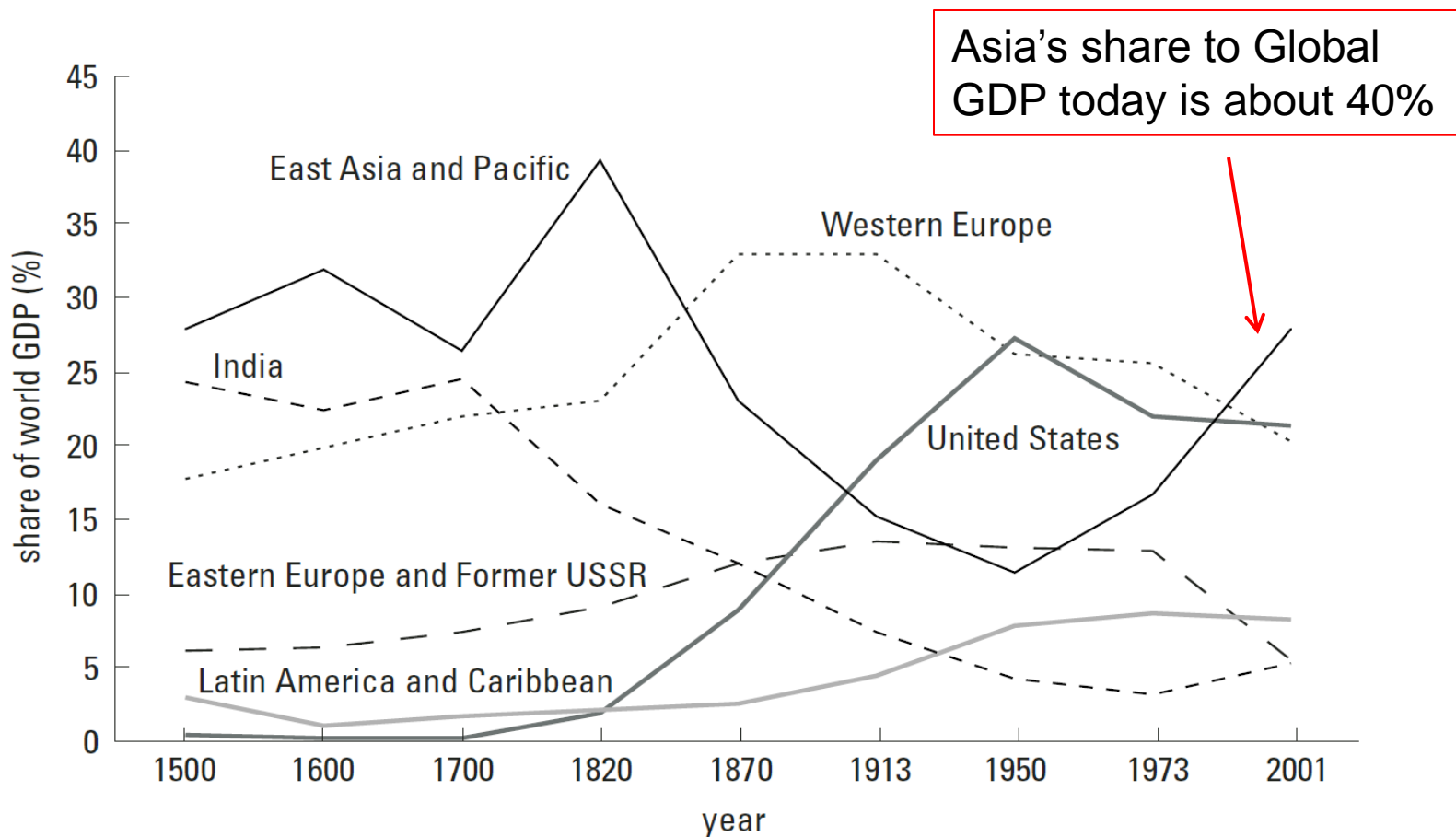
Joven Balbosa
Principal Country Specialist
Asian Development Bank



Outline

- ❑ Development context: Asia's re-emergence
- ❑ ASEAN and AEC
- ❑ SME performance in ASEAN
- ❑ Continuing challenges ahead for Inclusive Growth

Asia's re-emergence



Source: Maddison 2003.

Note: The GDP figures are expressed in 1990 international Geary-Khamis dollars.

Source: Gill, Huang, and Kharas (2007). *East Asian Visions: Perspectives on Economic Development*

Engines of Asia's re-emergence

- Asia's rise will be led by China, India, Indonesia, Japan, Republic of Korea, Malaysia, and Thailand.
- In 2010 these seven economies had a combined total population of 3.1 billion (78% of Asia) and a GDP of \$14.2 trillion (87% of Asia).
- By 2050 their share in population is expected to fall to 73 percent of Asia, while the share of GDP rises to 90 percent.
- These seven economies alone will account for 45% of global GDP. Their average per capita income of \$45,800 (PPP) would be 25% higher than the global average of \$36,600.

Where will the growth come from?

- Rising middle class
- Financial deepening
- World-class Infrastructure
- Education and innovation
- Greener economy

Challenges of emerging Asia (1)

Addressing Inequities and Disparities

- Inequities within countries
- Disparities across countries
- Disparities left unaddressed will create significant risks

Avoiding the Middle Income Trap

- Inclusive growth and creation of large middle class
- Sound and efficient financial systems
- Safe livable cities
- Technologically capable, skilled labor force
- Decentralized, nimble governments with effective institutions: transparency and accountability
- Corruption under check

Challenges of emerging Asia (2)

Global Competition for Finite Resources

- Increasing affluence could lead to unsustainable pressure on finite natural resources
- Growth patterns and lifestyle must change dramatically

Global Warming and Climate Change

- Climate change, disasters and catastrophe risks
- Eco-friendly and sustainable lifestyles

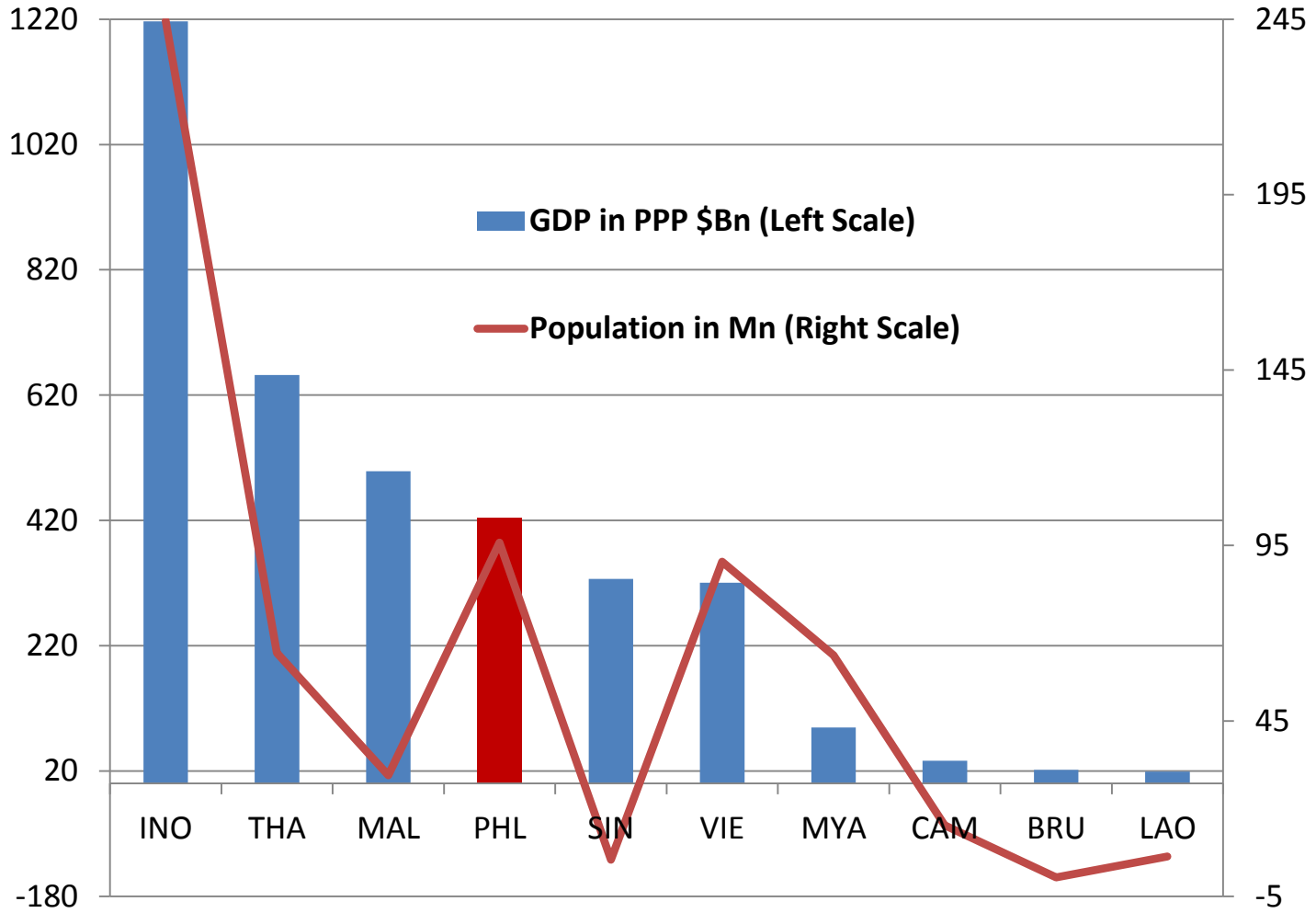
Importance of regional cooperation for Asia's Future

- ▶ Important bridge: interactions within Asia and rest of the world
- ▶ Significant synergies and positive benefits to all
- ▶ Management of regional commons for long-term stability and prosperity

ASEAN at a glance

	1990	2012
ASEAN member states	<ol style="list-style-type: none"> 1. Brunei Darussalam 2. Indonesia 3. Malaysia 4. Philippines 5. Singapore 6. Thailand 	<ol style="list-style-type: none"> 1. Brunei Darussalam 2. Indonesia 3. Malaysia 4. Philippines 5. Singapore 6. Thailand 7. Cambodia 8. Lao PDR 9. Viet Nam 10. Myanmar
Total GDP (US\$bn)	334	2,311
Total Trade (US\$bn)	306	2,476
FDI inflows (US\$bn)	13	110
Population (Million)	317	617
Poverty Rate (% of popn < US\$1.25)	45	15

Diverse ASEAN economies



Source: IMF

The Association of Southeast Asian Nations (ASEAN)

- Early focus (1967 establishment to Mid 70s): Creating harmony and Cohesion within the Region.
- Late 70s: Early steps towards economic cooperation/trade liberalization with the launch of the ASEAN Preferential Trading Agreement (APTA) and ASEAN Free Trade Agreement (AFTA)

ASEAN Economic Community (AEC)

ASEAN Vision 2020

- Transform ASEAN into a stable, prosperous, and highly competitive region with equitable economic development, and reduced poverty and socio-economic disparities (December 1997 summit).
- **Pillars: (1) AEC: Regional Economic Integration; (2) ASEAN Security Community; and (3) ASEAN Socio-Cultural Community**

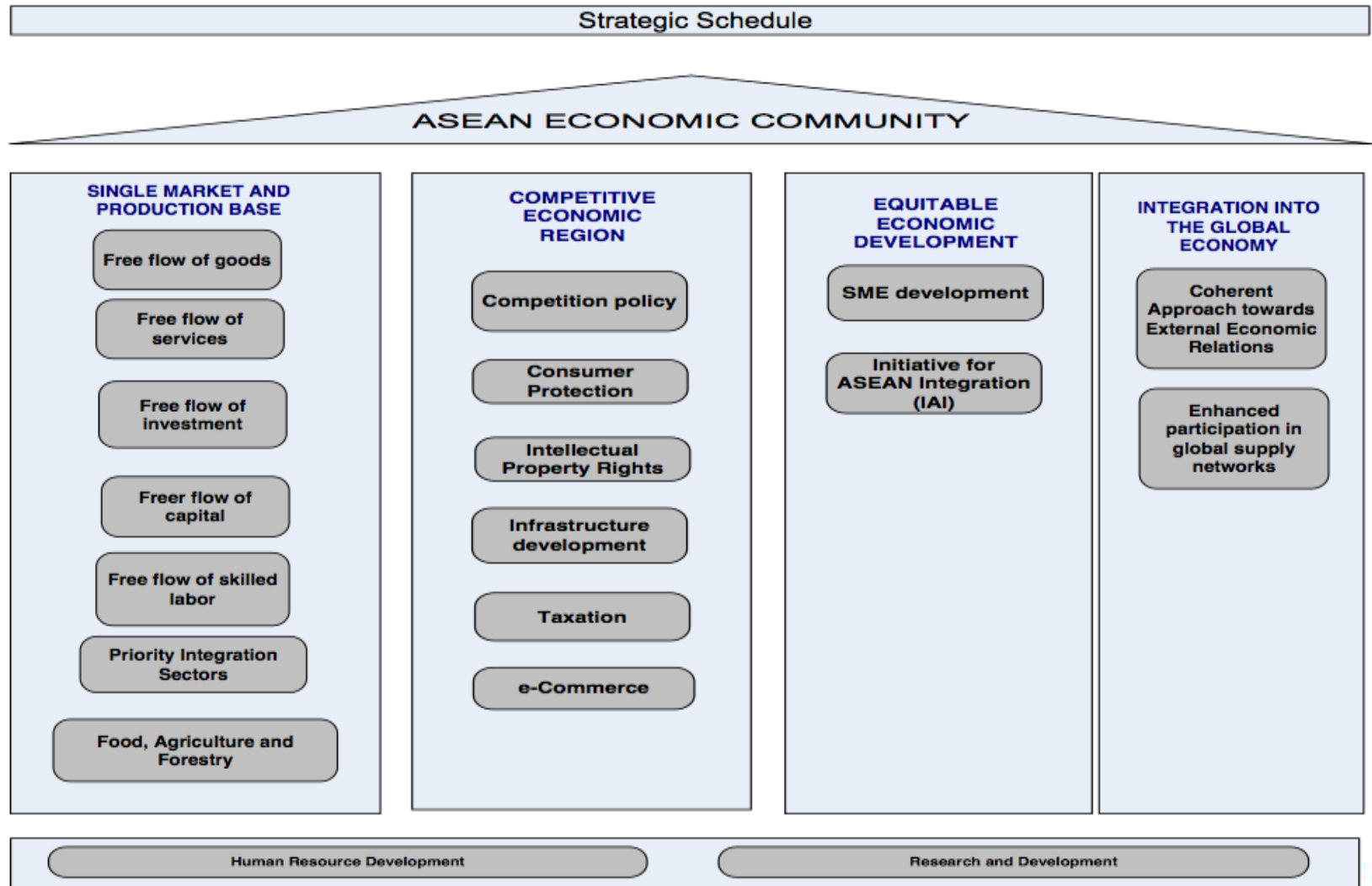
12th ASEAN Summit, Jan 2007: The Cebu Declaration

- Acceleration of the Establishment of an AEC by 2015

What is the AEC about?

- Making trade and investments flow freely
- Creating an enabling environment for business to prosper
- Ensuring that everybody participates and benefits in the development process
- Linking and seizing opportunities in the global market
- Setting new initiatives to deepen and broaden economic integration with clear timelines.

AEC's implementation pillars



Source: PIDS, Presentation of A. Rillo and E. Medalla

AEC implementation progress

➤ *2015 viewed as a milestone year – a measure of a work in progress*

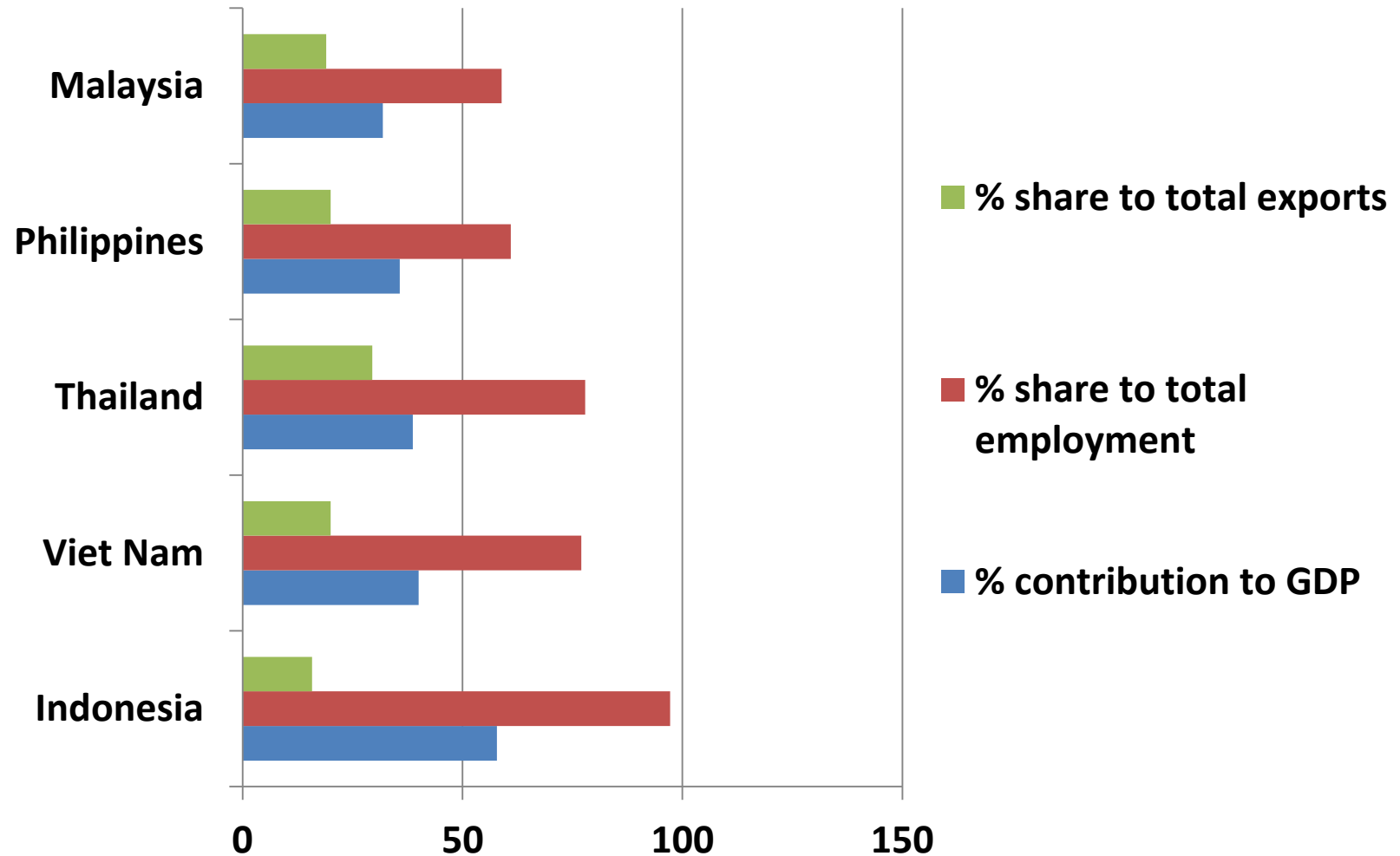
Challenges in implementation

- Customs reform and integration
- Failure to do away with Nontariff barriers
- Harmonization in Intellectual Property Rights protection and Competition Law
- Strengthening dispute settlement mechanisms

See S.B. Das, J. Menon, R. Severino, O.L. Shrestha (2013) "The Asean Economic Community: A Work in Progress". Asian Development Bank and Institute of Southeast Asian Studies

SME in ASEAN – Findings from a recent study

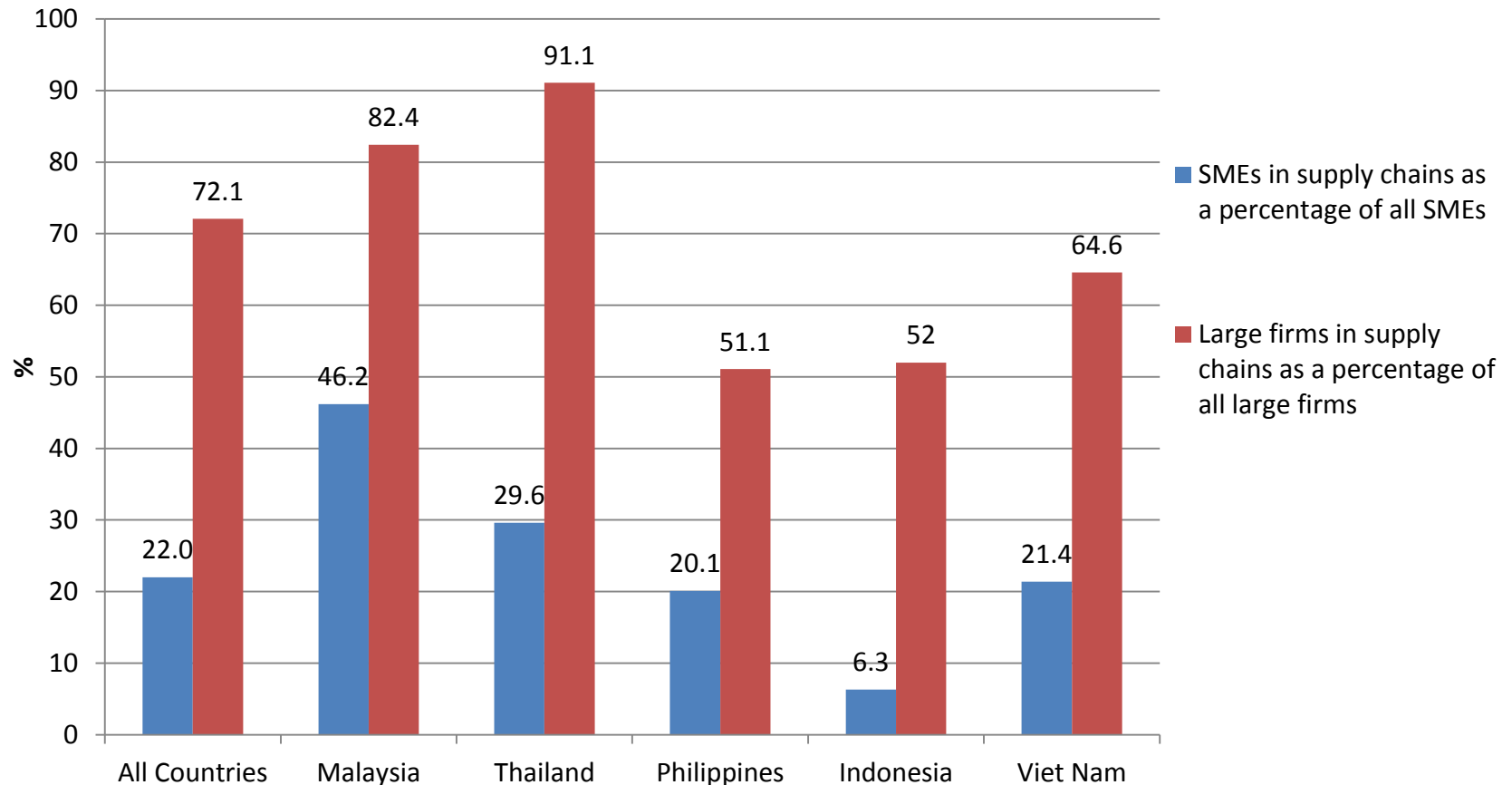
SMEs contribute more to economic activity but less in trade



Source: G. Wignaraja (2015) *Factors Affecting Entry into Supply Chain Trade: An Analysis of firms in Southeast Asia*. Asia and the Pacific Policy Studies

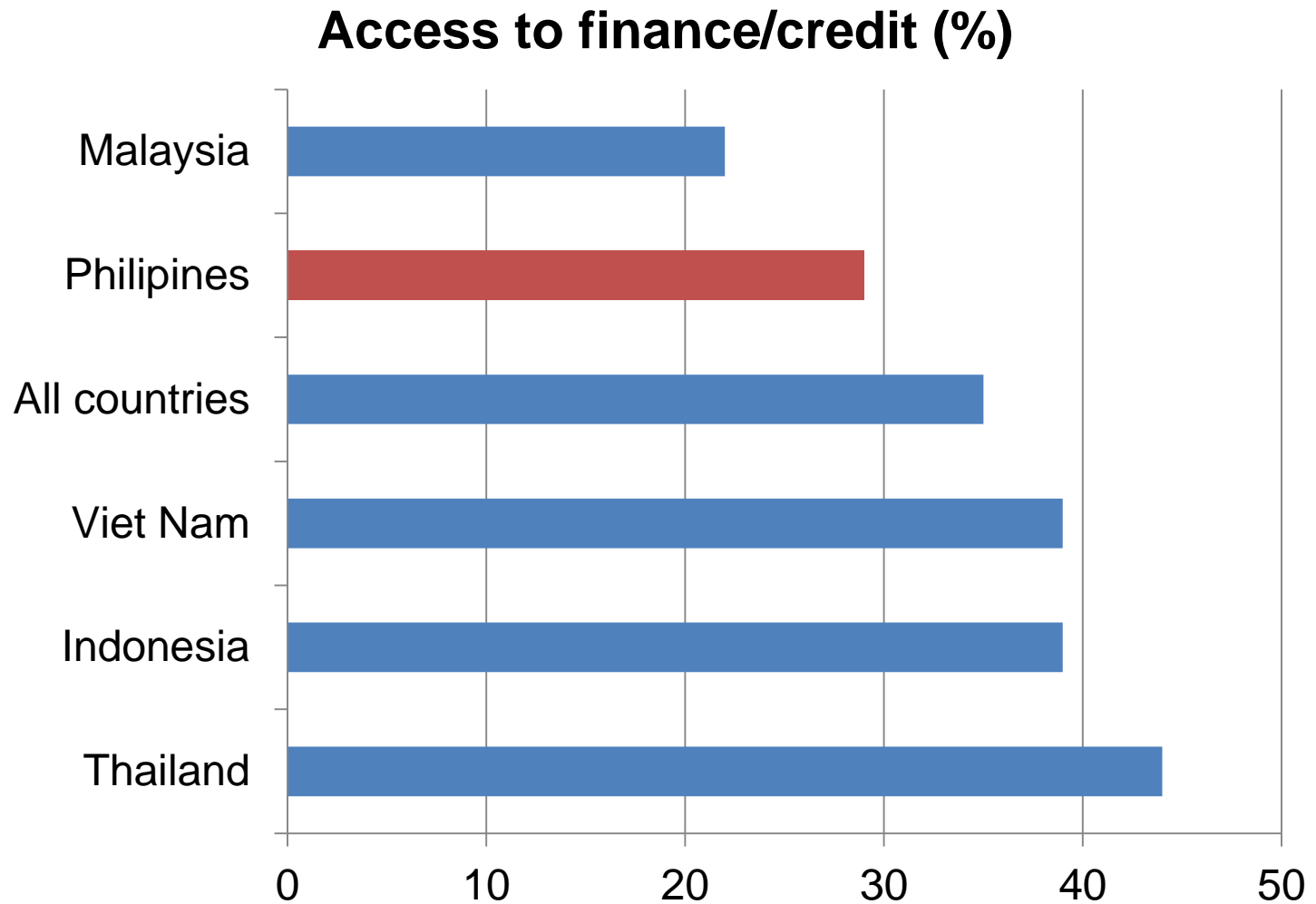
SMEs make relatively little contribution to supply chain trade

Role of large firms and SMEs in supply chains



Source: Wignaraja (2015)

Access to finance critical barrier to SME operation



Source: Wignaraja (2015)

Wignaraja (2015) main findings

- Higher SME engagement in some economies (e.g., Malaysia, Thailand) but large firm dominate
- Firm size, technological capabilities, skills, **access to credit**, and foreign ownership affect firms ability to join supply chains
- SMEs typically rely on own or nonbank source of finance
- In some cases, SMEs form clusters or embark on niche market strategies to overcome the disadvantages of firm size

Policy implications

- Affordable, high quality technical, marketing and other business support are useful to develop SMEs
- Effective access to finance
- Introduce better credit rating and databases
- Scale up microfinance and improve link to the financial system
- Promote technology (e-finance) and alternative delivery (mobile banking)
- Foster and sustain open trade and competition

All these are consistent with AEC

Philippine Country Office

<http://www.adb.org/countries/philippines/main>