

Matthews Asia Perspective

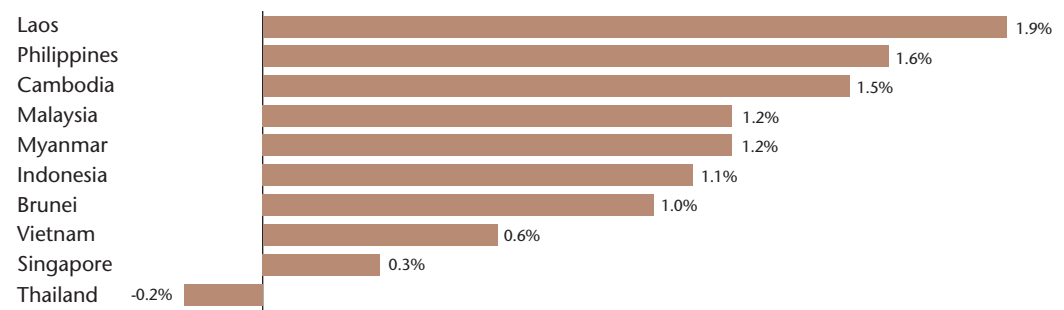
ASEAN at 50: Thriving Region Offers Investors Compelling Opportunities



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The Association of Southeast Asian Nations (ASEAN) marks its 50-year anniversary this year. Since its formation in 1967, ASEAN has expanded to 10 sovereign member states and become the world's sixth largest economy in terms of combined gross domestic product and its fourth-largest trader. For investors, the thriving ASEAN region provides opportunities stemming from its population of 630 million people, youthful demographics, growing workforce, rising productivity and urbanization. Vibrant and increasingly deep capital markets across the region, with more than 4,300 listed companies, provide investors with access to the compounding growth potential of these dynamic economies.

Figure 1. Working Age* Population, % Annual Change (2015–2025)



*Working age: 15–64 years old
Source: UN Population Division Estimates

ASEAN's aim of promoting regional stability and economic growth has been tested throughout its history. Its mission has endured, however, despite economic, political, and social diversity and more recently has evolved into a focus on greater economic integration. While a big step was taken with establishment of the ASEAN Economic Community in late 2015, much remains to be done before ASEAN can become a full-fledged economic community.

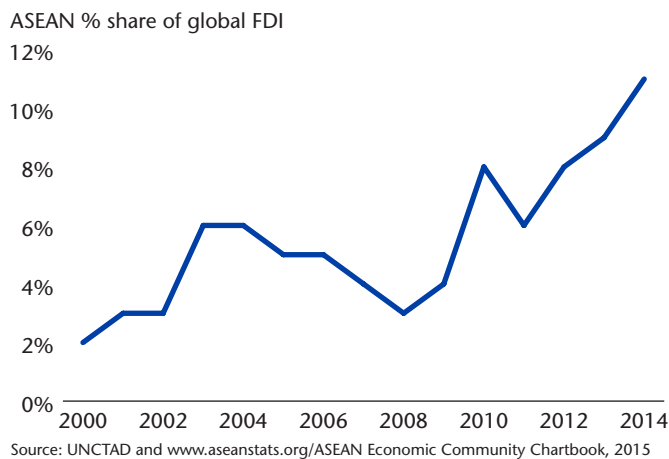
ASEAN's achievements began with initiatives to promote regional peace and security before moving onto the economic front. It played a leading role in stabilizing regional tensions during conflict between Vietnam and Cambodia, and sponsoring resolutions during the Khmer Rouge conflict in Cambodia at the United Nations General Assembly that culminated in the 1991 Paris Peace Agreements.

A recent step in ASEAN's evolution was the agreement to establish the ASEAN Economic Community (AEC) in 2007, an initiative that set out to establish market integration across ASEAN. The ASEAN Free Trade of Goods Agreement (AFTA), which was adopted by the six initial members of ASEAN in 1992 and aimed to reduce trade barriers, was a key milestone in implementing the AEC. Unlike the European Union, AFTA did not aim to apply a common external tariff on imports, but rather to move toward eliminating tariffs

on internal trade in ASEAN. Since AFTA's inception, intra-ASEAN trade has grown to more than US\$521 billion per year in 2016 (24.7% of total ASEAN trade), making ASEAN its own largest trading partner. The revised AEC Blueprint 2025 envisions more initiatives to create a single market, enhance competition, wind down tariffs and non-tariff barriers and fully liberalize the services sector.

Increased integration of ASEAN has helped draw foreign direct investment (FDI), with ASEAN's share of global FDI rising from less than 2% in 2000 to 11% in 2014. Rising FDI has been instrumental in shifting workers away from agricultural work to higher value manufacturing jobs, enabling higher incomes and increased consumption. Accenture Consumer Research in 2015 estimated that consumer spending power would reach US\$2.3 trillion by 2020 and increase approximately 60% from current levels.

Figure 2. ASEAN in the Global Economy

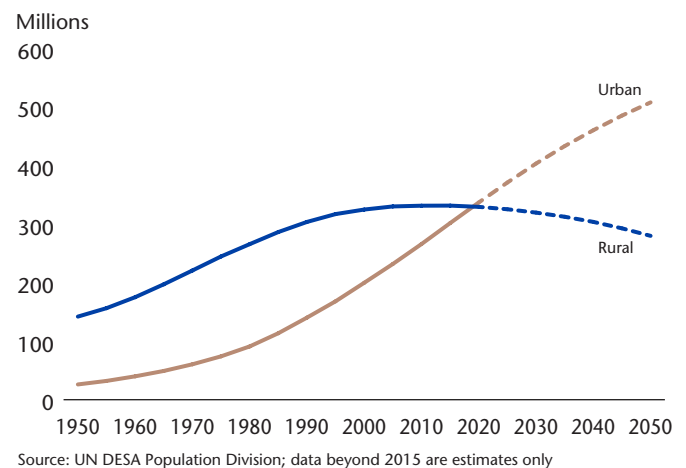


Looking forward, the region must now meet the challenges of human capital development and substantial infrastructure requirements to ensure it realizes its full potential. The rapid development in information technology and automation poses questions for ASEAN's young and relatively low-skilled labor force as it aspires to move up the income ladder, necessitating the right policies to educate and prepare workers for the jobs of the future and maximize the demographic dividend. ASEAN's lower-income economies will need to focus on modernizing equipment and processes and building their workforces' skills. They must also increase investment to address infrastructure deficits and reduce high logistics costs. According to the Asian Development Bank (ADB), approximately US\$3 trillion of infrastruc-

ture investment is needed in the region, higher than the already significant US\$1.1 trillion in planned spending at present (between 2015 and 2025).

The region would also benefit from acceleration or at least timely implementation of the revised AEC Blueprint, currently scheduled for 2025. Having largely removed intra-bloc tariffs, ASEAN now must shift its focus to eliminating non-tariff barriers, relaxing customs clearance procedures, wider liberalization of the services sector, easing foreign ownership restrictions, and smoothing regional movement of workers. Without it, local businesses will be hampered in reaching scale and plugging into global supply chains, while labor will not be allocated where it is most needed, hampering competitiveness and stunting income growth and purchasing power.

Figure 3. ASEAN's Urban Migration of 200 Million People



Despite their distinct cultures, histories, religions, and languages, ASEAN members share a focus on jobs and prosperity. Developments in ASEAN contrast with rising protectionism correlated with stagnating economic growth worldwide and growing unease over globalization. Participation in super-regional free trade agreements such as the Regional Comprehensive Economic Partnership has already begun to draw in FDI and facilitate deeper integration with East Asia and global supply chains. ASEAN remains poised for further gains stemming from its demographic dividend, continuing urbanization, and strategic positioning between two of Asia's economic giants, China and India. Investors would do well to pay attention, as ASEAN's success will help to drive differential growth that could power strong, stable returns.

Key Facts About ASEAN

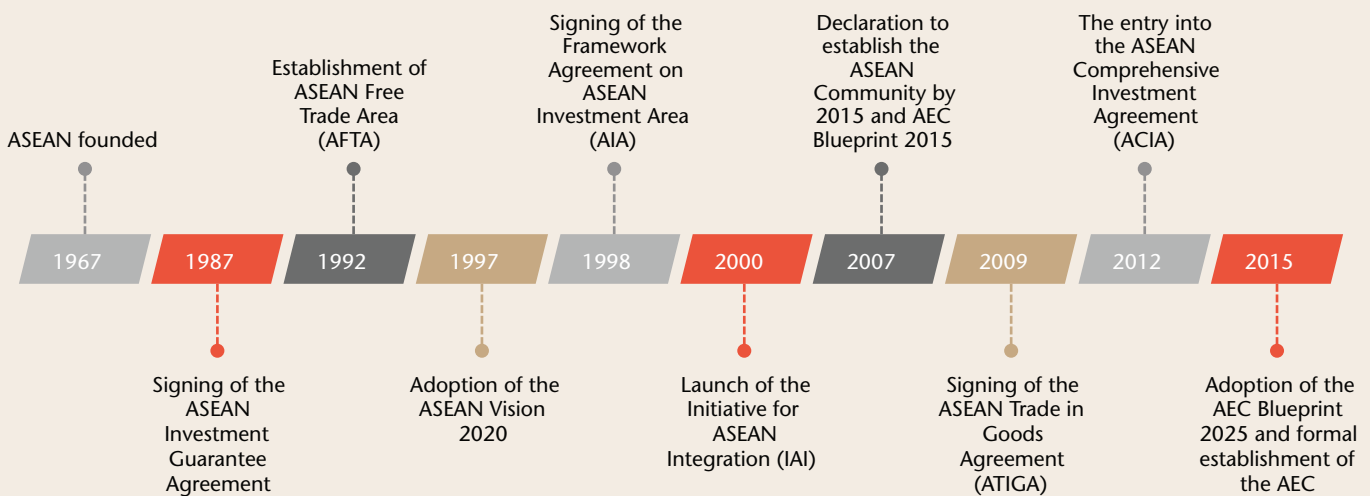
- ASEAN member countries are Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar and Vietnam.
- Unlike the European Union, ASEAN has no central government body. Key policies, such as free trade agreements, are made by the ASEAN Summit comprised of member heads of state, which are then delegated to intergovernmental ministerial councils.
- Thailand's and Malaysia's per capita GDP are at the level achieved by the United States in the 1950s and 1970s, Indonesia's level was achieved in the U.S. in 1940, while the Philippines and Vietnam are at the level the U.S. achieved in the 1890s–1900s.

Figure 4. The 10-Member Nations of ASEAN



Source: ASEAN Secretariat

Figure 5. ASEAN Timeline



Source: ASEAN Secretariat

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