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FINANCE TO ENSURE ASIA'S ECONOMIC GROWTH

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**TABLE 1 : REAL GDP GROWTH OF SOUTHEAST ASIA,
CHINA AND INDIA**
(ANNUAL PERCENTAGE CHANGE)
PROJECTIONS

	2012	2018	2014-18	2000-07
ASEAN-6 countries				
Brunei Darussalam	1.0	2.4	2.3	-
Indonesia	6.2	6.1	6.0	5.1
Malaysia	5.6	5.3	5.1	5.5
Philippines	6.8	5.9	5.8	4.9
Singapore	1.3	3.1	3.3	6.4
Thailand	6.5	5.3	4.9	5.1
CLIVIV countries				
Cambodia	7.2	7.1	6.8	9.6
Lao PDR	7.9	7.5	7.7	6.8
Myanmar	-	7.0	6.8	-
Vietnam	5.2	6.0	5.4	7.6
Average of ASEAN 10	5.5(*)	5.6	5.4	5.5(")
2 large economies in Emerging Asia				
China	7.7	7.5	7.7	10.5
India	3.7	6.1	5.9	7.1
Average of Emerging Asia	6.4	6.9	6.9	8.6

Source: OECD Development Centre, MPF-2014.

Notes: Emerging Asia includes ASEAN 10 countries plus China and India but excludes Myanmar, Brunei Darussalam.

1.0 ASIA WILL CONTINUE TO BE THE GROWTH CENTRE IN THE NEXT FEW YEARS

- **Medium-term economic outlook: Prospects and assessments during 2014 – 2018**
 - Emerging Asia is projected to grow by 6.9%
 - ASEAN group (10) will grow by 5.4% & ASEAN (6) by 6.0%
 - In 2013, China (7.7%) and India (5.9%) achieved moderate growth
 - Projections for Indonesia would be (6.0%) , Philippines (5.8%), Cambodia (7.0%), Lao PDR (7.7%), Myanmar (7.0%) and Vietnam (5.4%)
 - Malaysia and Thailand will grow by 5.1% and 4.9%
 - Singapore is projected to grow by 3.3%
 - Outside ASEAN, Sri Lanka is projected to grow by 7.0% -7.5% in the same period

2.0 ASIA'S INVESTMENT GROWTH WILL REMAIN ROBUST DURING 2014 -2018

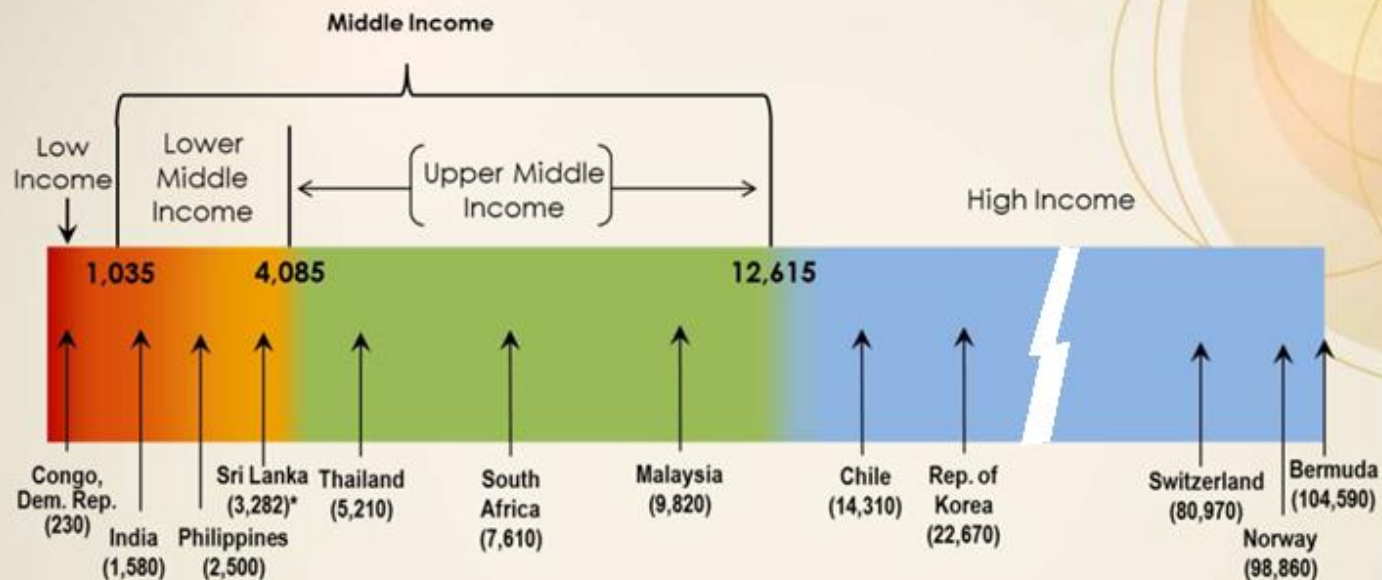
- Investment in Emerging Asia will be around 6.6%
- In South East Asia (SEA), Indonesia and the Philippines will continue to demand investment funds for infrastructure projects
- Investment growth in China and India is expected to be relatively low
- Markets are likely to be less liquid in 2014 than 2012 – 2013, but Japan, Korea, Taiwan and Singapore will attract investments
- Some SEA countries have relaxed exchange control procedures and opened up domestic capital markets (Sri Lanka)

3.0 SOURCES OF FINANCING ASIA'S GROWTH

- Internally generated funds through high national savings (Japan and Korea)
 - Savings ratios are low in SEA and South Asia , Vietnam and India due to current account deficits and budget deficits
- New rich middle classes in China and India will invest in emerging SEA
- Tapering off of quantitative easing (QE) in USA will adversely impact on flow of funds to Asia
 - 22 currencies plunged to historically low levels (Indian Rupee and Indonesian Rupiah in particular) in Q3 of 2013 with the announcement
 - During 22-29 January 2014 emerging markets lost equity worth of US \$ 6.3 bn
 - The gradual reduction of the QE will reduce liquidity availability in emerging Asia
- New rich middle classes in China and India will invest in emerging SEA
- Asian Bond market will support Asia's growth through issuance of local and foreign currency denominated sovereign bonds
- Global banks/funds will provide loans to emerging Asia and continue to invest in short term financial instruments (T-bills and Bonds)
- The corporates/banks have begun to borrow term capital from global banks directly and through international capital markets

4.0 THE MIDDLE-INCOME TRAP (MIT)

- According to Gill and Kharas (2007), due to slow down in growth patterns, inability to compete in exports, and move up on the value chain; and inadequate productivity; some countries (Malaysia and Thailand) appear to be trapped at middle income levels
- There is no clear benchmark to clearly identify MIT, but it is believed that MIT could happen at per capita US \$ 4000–5000 (at the lower end) and US \$ 10000-11000 or US \$ 15000-16000 (at a higher end)
- Japan, Korea and Singapore have managed to move out of MIT
- Emerging South Asian countries (Sri Lanka and Bangladesh) are attempting to pass through MIT by focusing attention on:
 - Macro-prudential indicators
 - Financial inclusion and education
 - Helping SMEs to avoid stagnation



*World Bank Categorisation:
2012 GNI per capita, calculated based on World Bank Atlas method*

** Estimate for 2013*

As some countries have stagnated at this middle income level, Asia's medium term macroeconomic strategy will need to focus on MIT

5.0 STRENGTHENING THE FINANCIAL SYSTEM TO SUPPORT DEVELOPMENT BEYOND MIT

- Credit to be channeled efficiently and on affordable terms backed by good collateral to growth sectors and businesses
- Financial institutions to be capable and operate as commercial entities
- Financial instruments and services to be developed to meet the needs of SMEs, growing middle class, ageing populations, rural households and other underserved segments
- Regulatory and supervisory systems to be capable of containing risks and avoid financial system instability
- Domestic financial systems to accommodate growing linkages to regional and international financial markets
- Emerging Asia to focus on enhancing financial inclusion, financial education/literacy and access to finance to protect SMEs from internal and external vulnerabilities
- Encourage regional and private equity funds to be set up to assist SMEs in emerging Asia

6.0 FINANCIAL INCLUSION/ EDUCATION

- Emerging Asia has made progress over the past four decades in:
 - raising income levels,
 - reducing poverty,
 - developing manufacturing,
 - investing in partnerships and business clients, and
 - developing agency links between investors and entrepreneurs
- Government policies will be crucial:
 - in determining the success of the middle-income Asian countries
 - in focusing on re-orienting industrial structures aiming to enhance access to finance and financial inclusion
- It is imperative to develop institutional structures, legal and regulatory frameworks, corporate governance practices to ease up doing business and reduce barriers to SMEs.
- It is necessary to improve access to education and finance while strengthening links between academic/research institutions and industry

7.0 IMPACT OF BASEL III ON CREDIT GROWTH

- Will be significant in Asia at a time when credit is vital
 - To move towards middle income levels
 - To promote SMEs to move beyond MIT
- Basel III will adversely impact on the composition of credit markets and force banks to raise capital even at high costs
- Basel III insists on minimizing banking risks and maintaining quality credit
- Asian regulators should balance between international financial regulation(Basle III) and real sector needs in their respective economies