

OECD Development Centre

The Southeast Asian Economic Outlook (SAEO)

Update (June 2010)

A) What is the SAEO for?

- To contribute to economic and social development and regional integration in Southeast Asia;
- To strengthen co-operation with ASEAN and other regional institutions and national development organisations in Southeast Asia;
- To promote informed policy dialogue and peer learning processes between OECD Members and Southeast Asian countries; and
- To fulfil the mandate approved by OECD Council at the Ministerial level in May 2007.

B) What is the target audience?

- Policy makers, such as ministers, legislators and senior government officials in OECD and Southeast Asian countries;
- Officials in ministries and international organisations (ASEAN, APEC, etc) engaged in regional integration processes; and
- Business and civil society leaders.

C) How is the SAEO different from the publications of other international organisations, such as the ADB, the IMF, and the United Nations?

- The SAEO is a collaborative project with the ASEAN Secretariat and several members of ASEAN, China and India;
- It monitors progress towards the ASEAN Economic Community;
- It focuses on in-depth analysis of ASEAN 10 countries;
- It identifies risks and challenges facing the region based on medium-term scenario analyses;
- It encourages regional policy dialogue and peer learning;
- It combines regional and country-specific approaches; and
- It covers both macroeconomic and structural issues, as well as their interactions.

D) What is the timeline?

1st stage: Preparation and project launch

- February, 2009: OECD *Policy Insight* No.90 entitled "*Regional Integration in Southeast Asia: Better Macroeconomic Co-operation Can Mitigate Risks*" released for the 2009 ASEAN Summit;
- From 22-25 March, 2009: the SAEO project was presented in Berlin at the "*ASEAN High Level Seminar*" organised by GTZ and Hertie School of Governance where a staff member also outlined current regional challenges in Southeast Asia;

- 27-28 April 2009: formal launch of the SAEO project at the 2nd OECD-Southeast Asia Regional Forum in Bangkok (both the OECD and ASEAN Secretariats issued a joint press release);
- 13-17 July 2009: Mission to Kuala Lumpur (SEACEN, Malaysian ministries and central bank); and
- 25 November - 5 December 2009: Mission to Bangkok, Jakarta and Kuala Lumpur (ASEAN Secretariat, ERIA, SEACEN, Thai, Indonesian and Malaysian ministries and central banks), in order to discuss and refine *the Regional Economic Monitor* (Part 1 of the SAEO in Annex I) with local experts (regional capacity building).

2nd stage: Venues for presentations of early results and launching seminars

- 11 February 2010: Presentation to the Informal meeting with ASEAN Ambassadors in Paris (Informal Reflection Group on Southeast Asia, OECD internal meeting)
- March 2010: Two research briefs completed for the ERIA-OECD Project (forthcoming)
 - “Fragmentation and Changes in the Asian Trade Network”; and
 - “China’s Ties with Southeast Asia: From Green Shoots to Sustained Recovery”
- 26-27 April 2010: Presentation to the Development Communication Network (DevCom) meeting in Hanoi, in order to discuss the early results of the SAEO with participants from several ASEAN countries and dialogue partners;
- May/August 2010: Missions to selected ASEAN countries for meetings with officials to discuss and further refine the major results of the SAEO;
- 5 July 2010: Interim DEV Seminar to review the first drafts of SAEO 2010 in Paris;
- October/November 2010 (tbc): Presentation to the ASEAN Summit in Viet Nam with the first policy messages on how to underpin regional integration initiatives on the basis of benefits for shared growth identified in the SAEO;
- 9 November 2010: Seminar on the occasion of APEC meetings in Japan, followed by a seminar in Korea (tbc) in mid November; and
- December (tbc): Seminar organized by PRI-OECD (Paris). Other presentations are planned for Bern, Geneva and Brussels.

3rd stage: Dissemination of SAEO 2010

- January - March 2011: Launching missions to selected ASEAN countries, in order to communicate the results of the SAEO, especially its policy messages, throughout the ASEAN region.

E) Structure of the SAEO [see Annex I for details]

The SAEO comprises two main parts. Part 1 will provide an update of regional economic trends (macroeconomic situations, economic and social development and regional integration). Part 2 will address a thematic issue that will change with each edition. For the inaugural volume, this will be “transport infrastructure and regional integration”. Each edition of the book will be approximately 150 pages long.

ANNEX I: STRUCTURE OF THE SAEO

Part I: Regional Economic Monitor

- **Short-Term Macroeconomic Trends (by the Development Centre and the OECD Statistics Directorate);**
- **Medium-Term Growth Scenarios (by the Development Centre);**
- **Regional Integration Landscape (by the Development Centre, the OECD Directorate for Science, Technology and Industry and the ASEAN Secretariat);**

The key questions to discuss in Part I will be

- *What are the current macroeconomic/growth challenges facing the region? In what way is regional integration in goods and services being strengthened?*
- *Considering the current short-term economic perspectives and business cycle trends, when and how to exit from current stimulus packages in Southeast Asia?*
- *How to shift development strategies from export-led growth to more balanced growth?*
- *When should Southeast Asian countries start fiscal consolidation and how?*
- **Short-Term Macroeconomic Trends:** Asian economies are the most dynamic and their global importance is increasing. At the same time, Asian economies are becoming increasingly integrated into the global economy; the impact of the global financial crisis on the region was largely felt through trade links. The question of whether or not there is “decoupling” between the economies of the United States and Asian requires detailed discussion of OECD and Asian business cycles.

The Southeast Asian Economic Outlook monitors macroeconomic trends including transmission from the global economy to Southeast Asia and synchronisation within the region using the OECD Asian Business Cycle Indicators (Box 1).

Box 1: The OECD Asian Business Cycle Indicators are currently being prepared jointly by the Development Centre and the OECD Statistics Directorate. Using these indicators, the Centre will analyse short-term macroeconomic trends in Southeast Asia and provide regular updates on the dedicated website. There is an increasing demand for a better understanding of the rapidly-changing macroeconomic landscape in emerging Asia. Yet, due to limited data and technical difficulties with comparability across countries of existing national business cycle indicators, most of the discussion of business cycles in Asia so far has been country-specific. We will fill this gap by applying the OECD’s methodology (*i.e.* the growth cycle approach) developed by the Statistics Directorate (STD) and applied to the *OECD Composite Leading Indicators*, which will be a basis for our new indicators.

- **Medium-Term Growth Scenarios (Box 2):** The Asian economic growth model needs to be re-examined. Traditionally, the “speed” of economic growth has been emphasised in the context of an export-led development strategy. The recent crisis provides an opportunity to think about many “ignored” aspects of Asian development related to the “quality” of growth; for example, the shift towards a domestic demand -led growth needs better and wider social safety nets and the growth of the middle class; and more care needs to be taken of environmental protection. In a nutshell, Asia is required to seek “new sources of growth”.

An important question here is whether current fiscal positions allow Asian countries to improve the quality of growth. The fiscal stimulus packages introduced by governments to deal with the crisis deteriorated fiscal balances of many Southeast Asian countries, some of which were still in the middle of fiscal consolidation process after the Asian Crisis in 1997/98. The Southeast Asian Economic Outlook is different from existing products, in that it examines the balanced growth and development strategy with special attention to the fiscal balance and new sources of growth using a medium-term scenario model.

Box 2: [The OECD Asian Medium Term Growth Model](#) is currently being prepared. Medium-term projections (i.e. 5-year scenarios) will be provided as a contribution to policy discussions seeking sustainable economic growth in emerging Asia.

- **Regional Integration Landscape (Box 3):** ASEAN leaders have recently unveiled the Blueprint for an ASEAN Economic Community (AEC) by 2015. Its end goal is to establish ASEAN as a single market and production base, thereby making the region more dynamic and competitive through existing and new initiatives with clear timeline.

The Southeast Asian Economic Outlook will continue to monitor the progress of regional integration towards the AEC using several selected regional integration indicators. These indicators shed light both on the level of interdependence and on development gaps among Southeast Asian countries. This section will be prepared jointly with the ASEAN Secretariat and relevant OECD directorates, such as the Directorate for Science, Technology and Industry (STI).

Box 3: [Regional Integration Landscape](#) focuses on the progress of integration in selected areas (trade, investment, etc) and on development gaps (income, social issues, etc). A host of indicators are currently being prepared jointly with ASEAN Secretariat and relevant OECD directorates (such as STI). The impact of integration on the real economy will also be analysed.

Part II: Thematic Focus

Transport Infrastructure and Regional Integration

- **Transport infrastructure as a tool for narrowing the gap between ASEAN members;**
- **Transport infrastructure and sub-regional integration in Indonesia;**
- **Financing transport infrastructure development in the region.**

Upgrading infrastructure, for instance transport and logistics services, will better connect less developed economies and sub-regions to the arteries of major economic activities across borders and reduce the transaction costs of trade and investment. Therefore, it will help achieve closer economic integration and promote more equitable and inclusive development in Southeast Asia.

Part 2 addresses “transport infrastructure and regional Integration” from various points of view: narrowing the gap between countries at different levels of development, in line with the *Initiative for ASEAN Integration* (IAI); sub-regional integration in Indonesia, the most populous and archipelagic country in Southeast Asia; and the levels and sources of financing.

Inputs to Part II will be prepared by Asian experts and the ASEAN Secretariat and processed by the Development Centre. There is, thus, a very “local” aspect to this element of the work.

Key questions to be discussed in Part II will be:

- *How will transport infrastructure development contribute to ASEAN integration? What measures have so far been undertaken? How best to promote it? What lessons can be drawn from the OECD experience?*
- *How does transport infrastructure development contribute to sub-regional economic integration? What is the current prospect for Indonesia?*
- *How can the financing gaps for transport infrastructure development be filled? What kinds of policy options do Southeast Asian countries have (i.e. PPP, SWF, etc)? How can the implementation of these options be supported?*
- **Transport infrastructure as a Tool for Narrowing the Development Gap:** The ASEAN informal Summit in November 2000 launched the *Initiative for ASEAN Integration* (IAI) with the particular aim of reducing disparities. The priority areas of this initiative include infrastructure development, particularly transport and logistics services. The subsequent *Hanoi Declaration on Narrowing Development Gap for Closer ASEAN Integration* adopted in July 2001 echoed the importance of the IAI. This is indeed one of the key areas of intra-ASEAN co-operation, as more developed member states provide technical assistance and capacity building programmes to less developed ones.

The Southeast Asian Economic Outlook will examine the actual effect of infrastructure development on narrowing development gaps in the region using the examples of transport and logistics service sectors and proposes measures to maximise these positive impacts.

- **Transport Infrastructure and Sub-Regional Integration in Indonesia**: Transport infrastructure development can be a powerful tool to reduce acute regional income disparities between and within countries in Southeast Asia. In the context of the current global crisis, infrastructure development has been seen as a particular challenge for increasing domestic demand, creating employment and reducing poverty at the sub-regional level. Indonesia is a case in point.

The Southeast Asian Economic Outlook will take stock of the country's national and sub-national efforts to upgrade transport infrastructure for integrating domestic markets and reducing poverty, and proposes the ways forward.

- **Financing transport infrastructure development**: Infrastructure projects are expensive, and the lack of government financing partly explains an inadequate level of infrastructure in many parts of Southeast Asia, despite huge demand. One of the solutions seen elsewhere to the problem is partnership between the public and private sectors. Such schemes can operate alongside purely public initiatives. At the same time, from a long-term perspective, infrastructure financing needs to entail risk sharing and take place in a climate of transparency.

The Southeast Asian Economic Outlook will compare different financing schemes (for example, revenue bonds, government/corporate bonds, public-private partnership and viability gap funds) from project management, regulatory and political-economy points of view with reference to concrete examples from some OECD and Asian countries. Based on these analyses, it will provide policy suggestions regarding the applicability of these schemes in the context of Southeast Asia.