Summary

- The 2015 Outlook Supplement notes that GDP growth prospects in Emerging Asia (the ten ASEAN countries plus China and India) continue to be favourable in 2015 and 2016, with overall growth projected to average 6.8% and 6.9%, respectively. In particular, the ASEAN countries are projected to grow at 5.1% in 2015 and to continue to expand by 5.4% in 2016.

- The region’s favourable economic prospects are supported by the decline in global oil prices since mid-2014, which has led to general declines in inflationary pressures and improvements in current account balances.

- In addition, declining oil prices further affect the region through reduced costs for energy-intensive manufacturing and transportation activities.

- The oil price decline has provided the opportunity to explore domestic structural reforms, in particular on fuel subsidies.

- The lack of clarity over the future of oil prices, combined with the complexity of their economic impact on individual countries, nevertheless suggests considerable continued uncertainty.

I. OVERVIEW OF GROWTH PROSPECTS IN EMERGING ASIA

GDP growth in the Emerging Asian region (the ten ASEAN countries plus China and India) remained robust in 2014 and growth prospects continue to be favourable for 2015 and 2016, with overall growth projected to average 6.8% and 6.9%, respectively (Table 1). In particular, the ASEAN countries are projected to grow at 5.1% in 2015 and to continue to expand by 5.4% in 2016.

Table 1. Real GDP growth of the ASEAN, China and India
(Annual percentage change)

<table>
<thead>
<tr>
<th>Country (Cut-off date of data)</th>
<th>2015 (March 2015)</th>
<th>2016 (March 2015)</th>
<th>2015-19** (October 2014)</th>
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<tbody>
<tr>
<td><strong>ASEAN 10 countries</strong></td>
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<tr>
<td>ASEAN-5 countries</td>
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<td></td>
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<tr>
<td>Indonesia*</td>
<td>5.3</td>
<td>5.9</td>
<td>6.0</td>
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<tr>
<td>Malaysia</td>
<td>4.8</td>
<td>5.1</td>
<td>5.6</td>
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<tr>
<td>The Philippines</td>
<td>6.3</td>
<td>6.2</td>
<td>6.2</td>
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<tr>
<td>Thailand</td>
<td>3.7</td>
<td>3.9</td>
<td>4.1</td>
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<tr>
<td>Viet Nam</td>
<td>5.7</td>
<td>5.8</td>
<td>5.7</td>
</tr>
<tr>
<td>Brunei Darussalam</td>
<td>-2.1</td>
<td>-1.9</td>
<td>1.6</td>
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<tr>
<td>Cambodia</td>
<td>7.2</td>
<td>7.2</td>
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<tr>
<td>Lao PDR</td>
<td>7.4</td>
<td>7.5</td>
<td>7.6</td>
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<tr>
<td>Myanmar</td>
<td>7.9</td>
<td>7.9</td>
<td>7.8</td>
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<tr>
<td>Singapore</td>
<td>3.1</td>
<td>3.2</td>
<td>3.5</td>
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<tr>
<td><strong>Two large economies in the region</strong></td>
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<tr>
<td>China*</td>
<td>7.0</td>
<td>6.9</td>
<td>6.8</td>
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<tr>
<td>India*</td>
<td>7.7</td>
<td>8.0</td>
<td>6.7</td>
</tr>
<tr>
<td><strong>Average of ASEAN 10 countries</strong></td>
<td>5.1</td>
<td>5.4</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Average of Emerging Asia</strong></td>
<td>6.8</td>
<td>6.9</td>
<td>6.5</td>
</tr>
</tbody>
</table>

Notes: The cut-off date of data for the 2015 and 2016 projections is 18 March 2015.
* The results for China and India are based on the OECD Interim Assessment, released on 18 March, 2015. The results for Indonesia are based on OECD Economic Survey of Indonesia, 2015.
** The 2015-19 projections are taken from the OECD Economic Outlook for Southeast Asia, China and India 2015. The cut-off date of data for these projections is 6 October 2014.
Source: OECD Development Centre.
Growth performance will improve in several ASEAN economies

The large ASEAN-5 countries (Indonesia, Malaysia, the Philippines, Thailand and Viet Nam) are expected to show near-term improvement in GDP growth, averaging 5.1% in 2015 and 5.4% in 2016, mostly in line with the medium-term projections of the Economic Outlook for Southeast Asia, China and India 2015 (produced using October 2014 as the data cut-off date). The Philippines will continue to lead the group with growth of more than 6% in both of the next two years. The country’s growth accelerated at the end of 2014, reaching 6.9% year-on-year in the fourth quarter. Rebounding government spending and exports contributed to the end-of-year improvement. Remittances from overseas Filipinos, which rose by 1.8% year-on-year in November, will continue to be an important contributor to economic growth. Indonesia’s growth is projected to pick up to 5.3% in 2015 and 5.9% in 2016. This represents an improvement over the 5% GDP growth recorded for 2014 as a whole, which was the lowest of the past five years. Structural reforms introduced by the Widodo administration are expected to help improve the business environment and to boost consumer and business confidence, supporting increases in private consumption and private investment. Malaysia’s growth is projected to continue to be robust in 2015/16, though mildly slower than the 6% growth of 2014. Strong private consumption, driven by higher spending on food and beverages, communications, and transport, contributed to the country’s growth. Private consumption is expected to moderate, though, as consumers adjust to higher prices resulting from the goods and services tax (GST) that will be implemented in April this year. Viet Nam’s economy also showed improvement, partly owing to increases in foreign investment, especially in the export-oriented manufacturing sector. Growth is also projected to improve in Thailand in 2015 and 2016, continuing the improvement seen at the end of 2014. The country’s economy grew by 2.3% in the fourth quarter of 2014, rebounding from negative effects related to political uncertainty at the beginning of the year. The improvement was mainly led by contributions from private consumption, private investment and government expenditure, particularly that related to the implementation of key infrastructure projects.

Singapore’s GDP growth is projected to be relatively unchanged from 2014 (2.9%), at 3.1% and 3.2% in 2015 and 2016, respectively. Challenges remains in the form of a tight labour market, though the services sector is set to continue to drive growth. Brunei Darussalam’s growth is highly dependent on the oil and gas sector and is expected to be weak over the next two years, -2.1% in 2015 and -1.9% in 2016.

More rapid growth rates, exceeding 7%, are expected to be found in CLM countries (Cambodia, Lao PDR and Myanmar) in 2015 and 2016. Myanmar will experience the highest growth in the region (7.9% in both years), buoyed by foreign direct investment. Recent structural reforms are improving the business environment in Myanmar and its integration with neighbouring economies is progressing, supporting this growth. Further reforms and investment in human capital and agriculture will be particularly important in promoting continued growth, however. Rapid growth is also forecast for Lao PDR, at 7.4% in 2015 and 7.5% in 2016. Despite falling external demand for mineral exports, Lao PDR’s economy should continue to grow due to the expansion of tourism and the services sector more broadly, along with numerous planned hydropower investments. Cambodia is expected to see strong growth of 7.2% in both 2015 and 2016, driven by improved performance and rising demand from Cambodia’s trade partners, along with an anticipated decline in the domestic tensions that dampened investment and output in 2014. Despite these favourable expectations, diversification will remain important to sustained development over the medium to long term.

The two largest economies in Emerging Asia, China and India, are expected to show different growth trends in 2015 and 2016. GDP growth is expected to accelerate in India (7.7% and 8% in 2015 and 2016, respectively) with expectations of reform under the new government. However, the apparent improvement in forecast growth rates for the Indian economy is also partly a result of significant revisions made by the country’s to it’s GDP data, which raised the base growth rate through 2014 and of the lower oil prices. However, investment and export growth are slow and significant risks remain in the
form of obstacles to further reform. China, on the other hand, should continue to see slowing growth momentum (to 7% in 2015 and 6.9% in 2016) despite the benefits of lower oil prices and small stimulus and structural reform measures implemented in 2014. The Chinese economy is moving towards more sustainable rates of growth and is held back by emerging weaknesses in the real estate and financial sectors, though it could benefit from continued reforms and service sector liberalisation in particular.

In the short term, dealing with the oil price decline will be a challenge for many countries in the region, though the impact varies according to their dependence on oil imports and other characteristics (see the next section of this Supplement).

II. COPING WITH THE OIL PRICE FALL IN ASEAN

Beginning in early July 2014, global oil prices began a downward movement due to the combined effect of weak demand and over-supply related to the stabilisation of oil production in the Middle East and increased oil production in the United States. In November 2014, OPEC announced that the crude oil production of its members would be maintained despite the decline in prices. The extent of the price drop, however, was largely unexpected by market participants. The price of Brent crude oil fell below USD 100 per barrel in early September and continued to decline past USD 50 per barrel on 7 January, 2015, a decrease of nearly 50% in four months. While oil prices have started to recover gradually this year, most market participants expect the prices to stay below USD 100 per barrel for a relatively long time. Indeed, futures contracts of crude oil delivered within 2015 are mostly priced below USD 70 per barrel. The OECD forecast indicates that the average price of Brent crude oil is to recover to USD 85 by 2016 (OECD, 2014).

Southeast Asia is a region endowed with relatively rich energy resources, although the distribution is uneven. The impact of the recent oil price drop on ASEAN countries varies according to their dependence on oil imports and other characteristics. In the short term, net oil importer countries such as Indonesia, the Philippines and Thailand, will receive an economic benefit through rising real incomes from lower oil prices that boost private consumption and investment. The region’s net oil exporters – Brunei Darussalam and Malaysia – will have to tackle the negative consequence of the weaker price of their major source of revenue. Depending on how persistent the oil price decline is in the coming years, Southeast Asian countries may need to adjust their policies to the circumstances presented by lower oil prices. While there is much uncertainty over future oil prices and their economic impacts, the supply shock has been estimated to be set to add between 0.3% and 0.8% to global GDP annually in 2015 and 2016 (Arzuki & Blanchard, 2014). This growth will not be shared evenly, however, and will impact economies around the world and in Southeast Asia through multiple channels (Baffes et al., 2015; World Bank, 2015). First, an international transfer of income from major oil exporters to oil importers arises from the plummet in global oil prices, though the negative impacts on growth among oil exporters may be limited by the fiscal policy responses of their governments. The income transfer will provide a direct boost to overall demand and consumption in the region since most ASEAN countries are net oil importers. The oil price decline has also produced a reduction in inflation pressures. The extent of the impact on inflation from the oil price drop also depends on the reactions of monetary authorities, as monetary authorities in oil importing countries may have additional space to implement expansionist policies. Lower oil prices also affect these economies through their impact on current account balances. Overall, declining global oil prices have improved current account balances in the region. The shock has reduced costs of goods produced and services due to the lower prices of energy inputs, mainly in energy-intensive manufacturing sectors such as the automobile industry and transportation sectors such as airlines and shipping. Lower oil prices have also affected domestic structural reforms through their political consequences. Some countries (for instance, Indonesia) will face challenges in implementing structural reforms that cope with the international volatility of prices.

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1 Following the OECD Economic Outlook 96, released in November 2014, the forecasts presented here assume a price of USD 85 per barrel for Brent crude oil over the projection period.
Declining global oil prices have benefitted the region as a whole

The decline in oil prices implies a global income transfer from oil exporters to importers. Lower oil prices have been a net benefit to Southeast Asia as a region, which is, on the whole, a net importer of oil. In fact, importers stand to reap considerable benefits from the price shock; in general, even a 10% decline in oil prices has been estimated to raise GDP growth in importing countries by 0.1 to 0.5 percentage points (World Bank, 2015). In absolute terms, the international income transfer associated with this shock has most benefitted those most reliant on imports – Singapore, Thailand and Indonesia – while costing net exporters Brunei Darussalam and Malaysia, whose incomes have been adversely affected by their declining terms of trade. The ultimate effects are complex, however; the benefit of lower prices for net importers has been weakened somewhat by the recent depreciation of many currencies against the US dollar and the costs to exporters may be affected by the spending decisions of governments, who typically receive much of the revenue from their resources (IMF, 2015).

The impact of the oil price decline on the external trade of Southeast Asian countries has so far been concentrated on trade balances. Cheaper energy imports allow for more spending on other imports and improve net importing countries’ terms of trade, though the factor behind the oil price declines – decreasing global demand arising from the economic slowdown in advanced economies – itself affects international trade negatively.

The decline of energy prices has improved the current account positions of most net oil importing countries in the region, notably Indonesia, Singapore and Thailand (Figure 1). Thailand received the largest boost to its current account balance, which rose from a deficit of about USD 0.5 billion to a surplus of USD 5.5 billion between July and December 2014, while Indonesia saw its current account deficit narrowed to about 2% of GDP in the fourth quarter of 2014. Viet Nam has enjoyed relatively strong growth in international trade, but its trade deficit expanded during the second half of 2014, as the dong appreciated to some extent.

Figure 1. Oil price change and current account balances in selected ASEAN countries, 2014

The negative impact of falling oil prices on Brunei Darussalam and Malaysia, the two ASEAN countries most dependent on oil-related revenues, has been limited so far. Brunei Darussalam maintained a relatively stable trade surplus in the second half of 2014. Malaysia managed to increase exports and to expand its trade surplus further in 2014, by 16.6% over the previous year, compensating for the weak export performance from the energy sector with strong growth in machinery, chemicals and food exports.

In addition to trade effects, the oil price decline is welcome in terms of room for stimulating economic activities. Indonesia, which has one of the highest headline inflation rates among ASEAN countries, decreased the interest rate after inflationary pressure eased at the beginning of 2015, for example. However, the impact of the oil price decline on inflation differs by country.

The oil price decline has also led to income transfers among sectors within individual countries. For instance, income could be transferred from energy-producing industries to energy-consuming industries, particularly those involved in energy-intensive activities. And lower prices for energy inputs help many corporations cut production costs and to potentially pass the benefits to customers by lowering the prices of their final products and services. The relative impact of oil price movements on growth is dependent on a number of factors, however, including the share of oil in total energy consumption (World Bank, 2015).

Many countries are working on domestic policy reforms in light of the global oil price decline

Many countries in Southeast Asia depend heavily on fossil fuels for their energy needs and energy subsidies have long been a heavy fiscal burden for their governments. According to the International Energy Agency (IEA), Southeast Asia’s overall energy demand will increase by more than 80% by 2035, while crude oil demand will rise by over 50% during this period (IEA, 2013). Besides their direct cost to the government, fuel subsidies encourage over-consumption of subsidised energy, diminish the incentive to invest in new infrastructure and production processes to conserve energy, cause the misallocation of resources and inefficient investment, as well as providing opportunities for corruption (OECD, 2010). In many cases, they also disproportionately benefit wealthier households. Reforms have been discussed and attempted for many years in Indonesia, Malaysia and Thailand, where fuel subsidies are especially high, but these attempts were usually met with protests from the public. As global oil prices decline, market prices of oil products are getting close to or even lower than subsidised prices. This provides the governments of these countries with opportunities to adjust their fuel subsidies without causing the price hikes in domestic oil markets that would adversely impact the daily lives of citizens.

Within ASEAN, fossil fuel subsidies were largest in Indonesia in 2013, with a total cost of USD 29 billion, or 18.6% of total government expenditure. Malaysian and Thai fuel subsidies amounted to 6.6% and 4.4%, respectively, of total government expenditures (Figure 2). In November 2014, the Indonesian government reduced the fuel subsidy as oil prices were falling. On 1 January, President Widodo announced the complete removal of subsidies for premium gasoline, which account for about 65% of total fuel subsidies.

Malaysia has also reacted to the drop in global oil prices by announcing a plan to abolish subsidies for gasoline and diesel starting from December 2014 and to set prices for domestic fuel through a “managed float”. Thailand is reported to be hastening development of its plan for fuel subsidy reform, though no official announcement has yet been made.
In general, reforms aimed at phasing out energy subsidies in ASEAN are worthwhile, but maintaining these reforms in the future remains a challenge. For instance, officials from Malaysia have stated that the government will consider restoring the oil subsidy if the international crude oil price rises above USD 80 per barrel. Challenges in Indonesia also include the sustainability of the recent reforms after oil prices increase again in the future. It is therefore important that other supplementary policies are implemented to support the reforms. These policies may extend beyond energy sector reforms, and may include the provision of social programmes targeting low-income households to mitigate the negative effects on their welfare from increasing oil prices. The present environment may also provide new opportunities to begin working on polices aimed at reducing dependence on fossil fuels over the medium to long term, such as investment in improved energy efficiency and the use of a more diversified energy mix featuring greater use of renewable energies. Overall, energy subsidy reforms are most likely to be successful if they are designed with consideration of the following points:

- It is important to effectively communicate the content of the reforms and the reasons why they are needed to the public via a range of media channels (radio, TV, internet, etc.) and campaigns in order to raise awareness and develop public support.
- Monetary authorities should be vigilant about the effects of fluctuating energy prices on economic stability and should maintain control over inflation.
- Subsidy reforms require the support of a strong domestic energy sector that can withstand the turbulence of the global energy market. Deregulation of downstream energy sectors could help strengthen the domestic energy industry.
- Governments need to strengthen social safety nets and to set up specialised programmes targeting the groups most vulnerable to fuel price increases. To improve its effectiveness and efficiency, targeting should be carefully designed.
REFERENCES


IMF (2015), World Economic Outlook Update: Cross Currents, International Monetary Fund, Washington, DC.


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